2000

HSBC Bank Canada

Annual Report and Accounts

YOUR WORLD OF FINANCIAL SERVICES

HSBC

CORPORATE PROFILE

HSBC Bank Canada, an indirectly held, wholly owned subsidiary of HSBC Holdings plc, has more than 160 offices. With over 6,500 offices in 79 countries and territories and assets of US$674 billion at 31 December 2000, the HSBC Group is one of the world's largest banking and financial services organizations.

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Shareholder Information

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STOCK EXCHANGE LISTINGS

HSBC Bank Canada Class 1
Preferred Shares Series A
(TSE: HSB.PR.A)

HSBC Canada Asset Trust
Securities Series 2010 (HSBC HaTS)
(TSE: HBH.M)

TRANSFER AGENT AND REGISTRAR

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This document may contain forward-looking statements, including statements regarding the business and anticipated financial performance of the Bank. These statements are subject to a number of risks and uncertainties that may cause actual results to differ materially from those contemplated by the forward-looking statements. Some of the factors that could cause such differences include legislative or regulatory developments, competition, technological change, global capital market activity, changes in government monetary and economic policies, changes in prevailing interest rates, inflation levels and general economic conditions in geographic areas where the Bank operates.

The information contained in management's discussion and analysis is derived from the audited consolidated financial statements of the Bank. Effective for 1998, the Bank changed its fiscal year-end from October 31 to December 31 to be consistent with that of HSBC Holdings plc. As well as being presented on an actual basis, the information for the fourteen months ended December 31, 1998 included in the five year summary has been annualized for comparative purposes. The annualized amounts are unaudited and were calculated by multiplying the audited results for the fourteen months ended December 31, 1998 by 12/14ths. The data under Risk-based Capital Ratios, Financial Ratios and Other Financial Data in various tables are derived from financial information used to prepare the audited consolidated financial statements of the Bank.

Unless otherwise stated, all references to $ means Canadian Dollars.

Five Year Financial Summary

(in millions, except ratios)

	Year ended December 31, 2000	Year ended December 31, 1999	Fourteen months ended December 31, 1998 (annualized) *(Unaudited)*	Fourteen months ended December 31, 1998	Year ended October 31, 1997	Year ended October 31, 1996
Statement of Income Data						
Net interest income	**$ 666**	$ 540	$ 519	$ 606	$ 493	$ 486
Provision for credit losses	**39**	43	77	90	38	53
Net interest income after provision for credit losses	**627**	497	442	516	455	433
Other income	**462**	384	285	332	240	154
Net interest and other income	**1,089**	881	727	848	695	587
Non-interest expenses:						
Salaries and employee benefits	**385**	339	266	310	230	188
Premises and equipment expenses, including amortization	**108**	101	86	100	72	63
Other	**249**	197	183	214	172	149
Total non-interest expenses	**742**	637	535	624	474	400
Income before taxes	**347**	244	192	224	221	187
Provision for income taxes	**155**	79	36	42	83	69
Non-controlling interest in income of subsidiaries	**8**	–	–	–	–	–
Net income	**184**	165	156	182	138	118
Preferred Share Dividends	**15**	–	–	–	–	–
Net income attributable to common shares	**$ 169**	$ 165	$ 156	$ 182	$ 138	$ 118
Balance Sheet Data (at period end)						
Total assets	**$ 29,438**	$ 25,051	$ 24,836	$ 24,836	$ 23,910	$ 21,209
Total loans	**19,753**	17,130	17,459	17,459	16,454	15,011
Commercial loans	**11,330**	9,634	9,934	9,934	7,940	7,139
Residential mortgage loans	**6,809**	5,769	6,057	6,057	6,876	6,453
Total deposits	**23,511**	20,170	20,550	20,550	20,115	18,353
Personal deposits	**12,116**	10,858	10,213	10,213	9,922	9,789
Subordinated debentures	**422**	392	620	620	549	583
Shareholders' equity	**1,406**	1,252	817	817	671	623
Risk-based Capital Ratios (%) (at period end)						
Tier 1 capital	**8.6**	7.9	5.4	5.4	4.7	5.1
Total capital	**11.5**	10.9	10.0	10.0	8.9	9.6
Financial Ratios (%) (at period end)						
Return on average common equity	**15.3**	18.4	21.0	21.0	20.2	19.5
Return on average total assets	**0.60**	0.63	0.63	0.63	0.61	0.59
Other income percentage[(1)]	**41.0**	41.6	35.4	35.4	32.7	24.1
Cost:income ratio[(2)]	**65.2**	68.8	66.5	66.5	64.7	62.5
Net non-performing loans as a percentage of loans and acceptances[(3)]	**(0.51)**	(0.55)	(0.67)	(0.67)	(0.39)	(0.24)
Liquidity ratio[(4)]	**25.5**	22.6	24.3	24.3	25.0	23.1
Funds Under Management (at period end)	**$ 10,198**	$ 10,227	$ 7,332	$ 7,332	$ 5,022	$ 2,475

(1) *Other income percentage is other income as a percentage of the total of net interest income and other income ("other income percentage").*

(2) *Cost:income ratio is total non-interest expenses as a percentage of the total of net interest income and other income, excluding amortization of goodwill and intangible assets ("cost:income ratio").*

(3) *Net of specific and general allowances for credit losses.*

(4) *Liquidity ratio is liquid assets as a percentage of total deposits ("liquidity ratio").*

Message from the President and CEO

HSBC Bank Canada enjoyed a year of significant accomplishments in 2000. We introduced a new five-year strategic plan, titled "Managing for Value", designed to support the HSBC Group's key strategic initiatives. We experienced strong growth in all areas of our business, supported by important benefits such as the integration into HSBC of the branches and customers of Republic National Bank of New York (Canada). Our HSBC name recognition continued to increase across the country, with the advantage of global branding.

In 2000, we successfully introduced a user-friendly internet personal banking initiative and launched the new global HSBC *Premier* service. In addition, we issued our first securities in the public markets which resulted in HSBC Bank Canada preferred shares and HSBC Canada Asset Trust securities being listed on the Toronto Stock Exchange.

In November 2000, we transferred HSBC InvestDirect Canada to the new global Merrill Lynch HSBC joint venture. Merrill Lynch HSBC Canada is poised to deliver unparalleled service to the self-directed investor.

Our results for the year were in line with expectations and showed a significant increase in pre-tax income. Strong revenue growth and our emphasis on improving operational efficiency and controlling expenses continued to show positive results, as demonstrated through an improving cost:income ratio. We anticipate further improvements as we build upon the momentum created in 2000.

Looking ahead to 2001, while we anticipate there may be some economic uncertainty, we believe we are well positioned to deal with any possible downturn.

Our plans for 2001 include a continued focus on organizing our business around the current and future needs of our target clients and on endeavoring to define clearly for these clients the value of dealing with our global organization.

Our well-trained staff enter 2001 with pride in their continued ability to deliver the excellent customer service for which HSBC in Canada has become well known.

Martin J. G. Glynn
President and Chief Executive Officer

Management's Discussion and Analysis

For the year ended December 31, 2000

Overview

HSBC Bank Canada ("the Bank") is the largest full service, globally integrated, foreign-owned bank in Canada. It is the only foreign-owned full service bank operating in every region in Canada. The Bank is the seventh largest bank overall in Canada, with total assets of $29.4 billion as at December 31, 2000. As an indirectly held, wholly owned subsidiary of HSBC Holdings plc ("HSBC Holdings"), the Bank provides its clients with access to one of the largest banking and financial services organizations in the world. Through its global network of more than 6,500 offices in 79 countries and territories, the HSBC Group ("HSBC") provides a comprehensive range of financial services to clients worldwide. HSBC enjoys a leading market position in trade services and other products in many markets around the world.

Originally established in 1981 with its head office located in Vancouver, British Columbia, the Bank has grown organically and through strategic acquisition to become a fully integrated financial services organization. With more than 160 offices across Canada and two offices in the north-western United States, the Bank operates as a retail and commercial bank, together with subsidiaries that offer full service brokerage, fund management, trust and advisory, investment banking and direct sale home and auto insurance.

The HSBC Group

Established in 1865, HSBC is one of the largest banking and financial services organizations in the world, with a market capitalization of US$136 billion at December 31, 2000. At the end of 2000, HSBC had total assets of US$674 billion, shareholders' equity of US$45.6 billion and total funds under management of US$295 billion. For the year ended December 31, 2000, HSBC's consolidated operating profit was US$9.4 billion on revenues of US$24.6 billion. HSBC Holdings is strongly capitalized under UK standards (which are comparable to those in Canada) with a Tier 1 capital ratio of 9.0% and a total capital ratio of 13.3% at December 31, 2000. The ordinary shares of HSBC Holdings are listed on the London, Hong Kong and Paris stock exchanges. Its American Depositary Receipts are listed on the New York Stock Exchange.

Headquartered in London, HSBC operates through long-established businesses in Europe, the Hong Kong Special Administrative Region, the rest of Asia-Pacific, North America and Latin America. Within each of these geographic regions, the businesses operate essentially as domestic banks and typically have a large retail deposit base, together with strong liquidity and capital ratios. By using HSBC's technological links, the local businesses are able to access HSBC's wide range of products and services and adapt them to local individual, commercial, corporate and institutional customer needs. In addition, in certain locations such as London, the Hong Kong SAR, New York, Geneva, Paris and Toronto, HSBC has investment banking operations which service the requirements of its large commercial, corporate and institutional customers.

A key component of the Group's strategy is the creation of a global brand featuring its name, HSBC, and its hexagon symbol. The aim is to make the HSBC brand universally synonymous with integrity, trust and excellent customer service.

The Business of HSBC Bank Canada

Strategy

The Bank's objective is to be the leading international provider of financial services in Canada with a significant presence in each of its key markets. To achieve this, the Bank has developed a strategy designed to build on its affiliation with HSBC and its history of consistent growth. This strategy has the following key operating components:

- **Leverage global strength, reach and brand** – The Bank believes that the global strength, reach and brand of HSBC is its most significant competitive advantage. The Bank intends to increase Canadian awareness of HSBC's global capabilities to enhance its market share and realize economies of scale in Canada.
- **Deepen existing client relationships** – The Bank is focused on increasing penetration of its customer base by better understanding and meeting clients' needs and ensuring that they have ready access to the full range of HSBC's global products and services.
- **Expand customer base and geographic presence** – The Bank is devoting resources to grow its presence nationally, with special emphasis on selected markets in Ontario and Quebec. While the Bank's strategy is focused principally on organic growth, it also allows for opportunistic acquisitions.
- **Enhance multi-channel delivery systems** – The Bank is focused on improving the cost:income ratio of delivering transactional services and commoditized products. While its branch network will remain a critical delivery channel, the

Bank plans to expand the market for its telephone and PC based banking services such as Internet banking. It is also implementing a focused e-business strategy to enhance its electronic delivery capabilities.

– **Attract, retain and motivate a high performance team of employees** – This policy has been critical to the success of the Bank and the development of a strong sales and service culture throughout the organization.

Business Lines

The Bank offers a wide range of products and services to targeted segments of the financial services market. The organization and structure of the Bank's operations are customer driven and uniquely integrated across service and product lines, subsidiaries and internationally through HSBC's global network.

The Bank operates through four major business segments, Personal Financial Services, Commercial Financial Services, Corporate and Institutional Banking and Treasury and Markets.

– **Personal Financial Services** provides individuals with customized customer service by offering access to a comprehensive range of financial products and services. These services are provided over numerous delivery channels from full service branches to electronic delivery channels such as telephone banking, direct debit and the Internet. Services are also provided through subsidiary offices, including HSBC Trust Company (Canada), HSBC Securities (Canada) Inc., HSBC Asset Management (Canada) Limited and Canadian Direct Insurance Incorporated.

– **Commercial Financial Services** provides a comprehensive range of financial products and services to Canadian commercial and corporate clients. The Bank provides Commercial Financial Services through commercial branches and subsidiary offices including HSBC Securities (Canada) Inc., HSBC Capital (Canada) Inc. and HSBC Asset Management (Canada) Limited, as well as through other HSBC offices around the world. Other delivery channels include Internet, PC and telephone banking. Commercial Financial Services customers are assigned a relationship manager to facilitate their interface with HSBC globally, as well as provide a responsive and flexible credit approval process.

– **Corporate and Institutional Banking** provides a comprehensive range of financial services to an international group of HSBC's large multinational clients. The Bank's Corporate and Institutional Banking focus is on entities that have a need for global value added products through investment banking, structured lending and trade services. The Bank provides these services through its principal branches and subsidiary offices, with a relationship manager who coordinates service delivery worldwide with HSBC's global operations. HSBC's proprietary global payments and cash management platform, Hexagon, is linked electronically to HSBC offices around the world.

– **Treasury and Markets** consists of three principal activities, client trading and facilitation, proprietary trading and balance sheet management. The Bank utilizes HSBC's global treasury and capital markets capabilities to enhance the opportunities to serve its clients. HSBC's presence in these markets ranks among the largest in the world, serving governments, supranationals, multinational and domestic corporations and institutional and private investors.

As part of the HSBC Group, it can provide all clients access to HSBC's global strength, reach and brand, which is considered to be a significant competitive advantage. A Canadian HSBC Automated Banking Machine (ABM) card can be used at 30,000 cash machines in Canada and more than 600,000 worldwide including any HSBC ABM machines wherever they are located.

Review of Operations – 2000

Highlights

– Completed the acquisition and integration of Republic National Bank of New York (Canada) ("Republic Canada").

– Successful launch of HSBC *Premier* (a global product, offering an exclusive suite of banking, credit and investment services and special privileges).

– As part of the operational launch of Merrill Lynch HSBC, the global online investment services and banking company, HSBC InvestDirect (Canada) Inc was transferred and renamed Merrill Lynch HSBC Canada Inc.

– Introduction in December 2000 of HSBC Global Technology Fund, a new Canadian mutual fund.

– Retail Internet banking introduced.

Management's Discussion and Analysis (continued)

- Ranked as top performing family of mutual funds in Canada in February 2000 by The Globe and Mail's "Special Report on Mutual Funds".
- Named as one of the 35 best companies to work for in Canada by an independent survey for The Globe and Mail "Report On Business" magazine in February 2000.
- Income before taxes and non-controlling interest in income of subsidiaries for the year ended December 31, 2000 was $347 million, an increase of 42.2% over 1999.
- Net income was $184 million for the year ended December 31, 2000, an increase of 11.5% over 1999.
- Return on average common equity of 15.3% for the year ended December 31, 2000, compared to 18.4% in 1999.
- Reduction in the cost:income ratio from 68.8% to 65.2%, an improvement of 360 basis points over 1999.
- Total assets of $29.4 billion at December 31, 2000, an increase of 17.1% compared to $25.1 billion at December 31, 1999.
- Raised $325 million in public issues of securities.
- Total capital ratio of 11.5% and tier 1 capital ratio of 8.6% at December 31, 2000 (10.9% and 7.9%, respectively, at December 31, 1999).
- Liquidity ratio increased from 22.6% to 25.5%, an increase of 290 basis points over 1999.
- Funds under management of $10.2 billion at December 31, 2000 after the transfer of $1.8 billion to Merrill Lynch HSBC Canada Inc. ($10.2 billion at December 31, 1999).

The Bank has adopted a Managing for Value initiative which is designed to create a culture which emphasizes value creation, enhances efficiency and optimizes capital allocation and utilization. During 2000, the Bank has taken several steps to ensure the success of this initiative:

Re-engineering organizational processes, information systems and structure to optimize efficiency, while enhancing sales and advisory activities. Following the opening of new regional customer service centres in Vancouver, British Columbia and Markham, Ontario in the fourth quarter of 1999, in 2000 the Bank began to see more concrete results. The Bank has refined the utilization of modern technology, focussing on re-engineering and improving processing efficiency. Managing service and delivery channels to more efficiently meet customer needs and expectations as they evolve over time continues to be a priority. The successful launch of retail Internet banking during 2000, and other operating efficiencies have all allowed further reallocation of resources from administrative to sales functions.

Ensuring systems development, capacity and performance continue to address the changing and growing needs of the Bank and its clients. The Bank is continuing to update systems and technology and is able to benefit from economies of scale through the use of HSBC systems such as the Bank's Internet banking platform. The Bank also upgraded the hardware for its main processing system resulting in significantly improved processing times. In 2001, further upgrades are planned including the core retail banking software to further enhance customer service. The receipt in 2000 of a Canadian Information Productivity Award is evidence that the Bank is making progress towards achieving these major initiatives.

Attracting, retaining and motivating a competent and high performance team of employees and developing a consistent culture of excellence through sales and service throughout the organization. There have been modifications to the compensation and incentive structure. This has included new schemes for sales rewards, share option schemes and other motivational and educational techniques designed to encourage and motivate high performing employees and teams. The Bank was named in February 2000 by an independent survey conducted on behalf of The Globe and Mail "Report On Business" magazine as one of Canada's top 35 employers.

Growing the financial importance of HSBC in the Canadian financial services market, by working towards achieving critical mass in all key businesses and leveraging HSBC's global strength, reach and brand. In February 2000, the Bank's mutual fund family was ranked by The Globe and Mail's "Special Report on Mutual Funds" as the best mutual fund family with 93% of its funds outperforming the average in their category based on one-year performance for the period ending December 31, 1999. These funds are managed by HSBC's Canadian and global asset and fund management team. In December 2000, the "HSBC Global Technology Fund" was added to the Canadian mutual fund family. This fund also benefits from HSBC Asset Management's global investment and advisory group which has in excess of US$100 billion

under management. The acquisition in April 2000 and subsequent integration of Republic Canada, following HSBC's acquisition of Republic Canada's parent in late 1999, has expanded the Bank's presence in Ontario and Quebec. This merger has allowed the Bank to explore and capitalize on various cross-selling opportunities for providing a full range of products and services to Republic Canada's existing customer base. In addition the Bank has also been able to bring to its own customer base, new products and services previously developed by Republic. A further enhancement to the Bank's product range, leveraging the global HSBC brand, was the introduction in 2000 of HSBC *Premier*, a global product, offering an exclusive suite of banking, credit and investment services and special privileges for the affluent.

Operational challenges for the coming year will include the need for balanced growth and maintenance of higher levels of capital, while achieving critical mass in each of the major business segments, as well as increased efficiencies. In January 2001, the Bank reached agreement to purchase, by way of amalgamation, Crédit Lyonnais Canada and CCF Canada. The approximate total assets of Crédit Lyonnais Canada and CCF Canada at December 31, 2000 were $110 million and $15 million respectively. These transactions closed on March 19, 2001. CCF Canada's ultimate parent, Crédit Commercial de France, had previously been purchased by HSBC Holdings in July 2000.

Analysis of financial results for the year ended December 31, 2000

Income: Income before income taxes and non-controlling interest in income of subsidiaries was $347 million for the year ended December 31, 2000, an increase of 42.2% over 1999. Improved income before taxes reflected strong commercial loan growth, improvements in net spread and steady growth in fee income, together with the benefits of a lower cost:income ratio.

Net income: Net income was $184 million for the year ended December 31, 2000, an increase of 11.5% over 1999. The 2000 return on average common equity of 15.3% compared to 18.4% in 1999 was largely as a result of the increased capital base in 2000, due to regulatory requirements to increase capital ratios, and a higher provision for income taxes. During the year, there were $17 million in charges to reduce the value of future income tax assets, as a result of lower future corporate income tax rates scheduled over the next four years that were announced in the federal and provincial budgets in 2000.

Net interest income: For the year ended December 31, 2000, net interest income was $666 million, an increase of $126 million, or 23.3% over 1999. Continued growth in interest earning loans, especially commercial advances, helped boost year-on-year performance. In addition, the acquisition of Republic Canada at the beginning of the second quarter this year added $974 million in earning loans. Increases in prime and base lending rates, an increased contribution from loan fees and lower funding costs helped increase the net interest margin in 2000. Net interest margin, as a percentage of average interest earning assets increased to 2.68% compared to 2.32% in 1999. The lower funding costs were primarily due to less reliance being placed on wholesale deposits, which are more costly than personal retail deposits. In addition, a capital restructuring in December 1999 eliminated $4 million of subordinated interest expense per quarter in 2000.

Credit quality and provision for credit losses: The provision for credit losses declined to $39 million in the year ended December 31, 2000, compared to $43 million in 1999. This was due to lower specific provisions, partially offset by slightly higher general provisions. The ratio of general provisions to risk weighted assets declined to 115 bps at December 31, 2000 from 125 bps at December 31 1999. Despite an increase in the overall volume of interest earning assets, credit quality remained strong driven by a conservative lending policy, a reflection of the strong economic conditions that existed across Canada in 2000 and a focus on relationship lending. The provision for credit losses, as a percentage of average loans and bankers acceptances, has improved 4 basis points to 0.18% for the year ended December 31, 2000 compared to 1999. The allowance for credit losses exceeded gross impaired loans by $111 million at December 31, 2000 compared to $104 million at December 31, 1999.

Other income: For the year ended 31 December 2000, other income was $462 million, an increase of $78 million, or 20.3%, over the comparative period in 1999. Favourable market conditions, particularly in the first six months of the year, resulted in income from investment and securities services including corporate finance fees increasing by $67 million, or 46.9%, to $210 million when compared to 1999. This was partially offset by a lower level of trading revenue due to a lower contribution from structured equity trading operations. There was also a strong contribution from mutual fund management fees driven by strong sales and higher markets during 2000. In commercial financial services, the continuing strong economy provided for increased revenues from bankers acceptances and also in trade finance revenues where the Bank continues to be a market leader, particularly in import letters of credit.

Management's Discussion and Analysis (continued)

Non-interest expenses: Non-interest expenses were $742 million for the year ended December 31, 2000, up 16.5% from 1999. The higher salaries and employee benefits and other non-interest expenses were largely due to the growth in performance-based compensation and volume-driven transaction expenses. Both of these expense items were associated with increases in other income, although the percentage growth in total revenue was higher than the percentage growth in expenses. A continuing emphasis on controlling expenses and improving operational efficiency showed positive results. Investment in new technology at two centralized regional customer service centres in previous years has begun to show results, with productivity gains resulting from processing efficiencies. In addition, more customers are using direct banking options such as ABMs, direct debit and telephone and Internet banking, which also contributed to lower costs. The success of these process improvement initiatives together with enhanced revenues resulted in an improvement in the cost:income ratio by 360 basis points in 2000 to 65.2% from 68.8% for the year ended December 31, 1999, excluding amortisation of goodwill and intangible assets of $7 million.

Provision for income taxes: The provision for income tax expense increased to $155 million for the year ended December 31, 2000 compared to $79 million for 1999. This was partially due to an increase in net income before tax and a higher effective tax rate. The increase in the effective tax rate was the result of a decrease in non-taxable income, reduction in value of future income tax assets and other deductions available for utilization during 2000.

In the February 2000 budget, a reduction in corporate income tax rates to 21% from 28%, within five years, was announced with a one percent reduction in the rate effective January 1, 2001. Under the liability method of accounting for income taxes, the value of net future income tax assets will decrease as tax rates are reduced and, accordingly, the provision for income taxes for the three months ended March 31, 2000 was increased by $3 million followed by a further increase of $2 million in the second quarter associated with future reductions in tax rates in the province of Ontario. In the federal mini-budget in October 2000, additional future rate reductions were announced which, although not yet tabled in parliament, were confirmed subsequent to the general election by the Finance Minister. The Canadian Institute of Chartered Accountants (CICA) determined that for accounting purposes, the budget should be considered enacted and accordingly a provision to reduce the value of future tax assets by $12 million was charged in the fourth quarter. However, in future years there is expected to be a benefit with progressive reductions in the rate of tax charged on the Bank's income.

Transfer of HSBC InvestDirect (Canada) Inc: In April 2000, HSBC and Merrill Lynch announced the formation of a joint venture to pursue on-line Internet trading in various parts of the world except the United States, combining the benefits of Merrill Lynch's award winning research and HSBC's global processing capabilities. On November 29, 2000, the Bank's interest in HSBC InvestDirect Canada Inc (subsequently renamed Merrill Lynch HSBC Canada Inc.) was transferred to Merrill Lynch HSBC Ltd, a global online investment and banking company, for cash consideration of $110 million. As a related party transaction, the resulting gain of $88 million, net of tax, was credited directly to retained earnings. As result of this change in ownership, $1.8 billion in funds under management were transferred out.

Assets: Assets totaled $29.4 billion at December 31, 2000, up from $25.1 billion at the end of 1999. Excluding securitizations, assets increased 20.4% or $4.7 billion, mainly as a result of strong commercial growth and the acquisition of Republic Canada.

Capital market issues: In order to meet revised capital adequacy targets, as part of its goal of raising capital at low effective rates, in June 2000, the Bank raised $125 million through the public issue of preferred shares and a $200 million issue of innovative tier 1 securities known as "HSBC HaTS" through HSBC Canada Asset Trust.

Funds under management: Funds under management were unchanged at $10.2 billion at the end of 2000, compared to the end of 1999. These funds were comprised of $5.0 billion of brokerage clients' assets and $5.2 billion of portfolio management and mutual fund products. During 2000 portfolio management and mutual fund products increased by 21.2% and brokerage clients' assets decreased by 15.7%. Had it not been for the transfer of HSBC InvestDirect, funds under management would have been $12.0 billion, an underlying increase of $1.8 billion or 17.6% compared to December 31, 1999.

Changes in accounting policies

Income Taxes: Effective January 1, 2000, the Bank adopted CICA Handbook section 3465 which required a change from the deferral method to the liability method of accounting for income taxes. Under this new standard, future income tax assets and future income tax liabilities are determined based on temporary differences (differences between the tax and the accounting bases of assets and liabilities) and are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability is settled. A valuation allowance is recorded against any future tax asset

if it is more likely than not that the asset will not be realized. Income tax expense or benefit is the sum of the provision for current income taxes and the difference between the opening and closing balances of the future income tax assets and liabilities.

The accounting recommendations in section 3465 were adopted by the Bank on a retroactive basis without restatement of any prior periods. The cumulative effect of this accounting policy change has been recorded at January 1, 2000 as a decrease in retained earnings of $4 million, an increase in net future income tax assets of $42 million (primarily related to the benefit of income tax losses carried forward recognized, as it is more likely than not that the asset will be realized) and an increase in deferred credits of $46 million.

Employee future benefits: Effective January 1, 2000, the Bank adopted CICA Handbook Section 3461 which required that all costs of employee future benefits be accrued over the periods in which the employees render services. The calculation of the accrued benefit obligation relating to employee future benefits is made using current settlement discount rates. The effect of the new standard on post-retirement benefits other than pensions required recognition of a transitional obligation as at January 1, 2000 amounting to $38 million. As the Bank has chosen to adopt the new standard on a prospective basis, this transitional obligation is amortized as a part of periodic post-retirement benefit costs other than pension costs over the estimated average remaining service period of active employees expected to receive benefits under the plans, which has been estimated at 20 years.

Prior to January 1, 2000, costs relating to post-retirement benefit plans, other than pensions, were accounted for on a cash basis. The calculation of the accrued pension benefit obligation relating to pensions and post-retirement benefits requires the use of a current settlement discount rate. Prior to adoption of this new standard, pension expense was determined using a long-term rate of return to measure accrued pension benefits.

The expense for employee future benefits for the year ended December 31, 2000 is not materially different than it would have been under the previous standard.

In estimating the financial position of the defined benefit pension plans as at December 31, 2000, a valuation allowance of $47 million was applied against the surplus of certain pension plans, in accordance with CICA Handbook Section 3461.

Quarterly Summary of Statements of Income

	2000				1999			
	Quarter ended				*Quarter ended*			
	Dec. 31	*Sept. 30*	*June 30*	*March 31*	*Dec. 31*	*Sept. 30*	*June 30*	*March 31*
	(unaudited, in millions)							
Net interest and other income	**$ 285**	**$ 267**	**$ 271**	**$ 266**	$ 229	$ 224	$ 219	$ 209
Total non-interest expenses	**180**	**177**	**194**	**191**	165	155	161	156
Income before taxes	**105**	**90**	**77**	**75**	64	69	58	53
Provision for income taxes	**(61)**	**(36)**	**(30)**	**(28)**	(22)	(24)	(18)	(15)
Non-controlling interest in income of subsidiaries	**(4)**	**(4)**	**–**	**–**	–	–	–	–
Net income	**40**	**50**	**47**	**47**	42	45	40	38
Preferred share dividends	**(2)**	**(2)**	**(11)**	**–**	–	–	–	–
Net income attributable to common shares	**$ 38**	**$ 48**	**$ 36**	**$ 47**	$ 42	$ 45	$ 40	$ 38

In the opinion of management, unaudited quarterly information contains all adjustments necessary for a fair presentation of such information. All such adjustments are of a normal and recurring nature.

Management's Discussion and Analysis (continued)

Capital Management

The Bank manages its capital resources to ensure their efficient use in the generation of shareholder value while supporting the Bank's activities, including its asset base and risk positions, providing prudent depositor security and complying with all applicable regulatory requirements.

The Bank's ultimate parent, HSBC Holdings, is strongly capitalized with a Tier 1 capital ratio of 9.0% and a total capital ratio of 13.3% at December 31, 2000. The Bank manages its capital in accordance with HSBC Holdings corporate policies and external regulatory requirements. HSBC Holdings is regulated by the Financial Services Authority (United Kingdom).

Capital adequacy for Canadian federally incorporated financial institutions is regulated by the Superintendent of Financial Institutions Canada (the "Superintendent") and is based on guidelines provided by the Bank for International Settlements ("BIS"). In 1999, the Superintendent revised its capital adequacy targets, significantly increasing its recommended capital ratio targets. Specifically, the Superintendent recommended that Canadian banks maintain Tier 1 and total capital ratios of 7% and 10%, respectively. Prior to 1999, the Superintendent's minimum capital ratios were the same as those of BIS, which continues to recommend that financial institutions maintain 4% and 8% Tier 1 and total capital ratios, respectively.

Tier 1 capital is the permanent capital of a bank, comprising common shareholders' equity, qualifying non-cumulative preferred shares, contributed surplus and retained earnings. Tier 2 capital includes subordinated debentures and cumulative preferred shares. Total capital comprises both Tier 1 and Tier 2 capital.

Canada Deposit Insurance Corporation ("CDIC") has a tiered, differential insurance premium ratings system, which includes targets for capital adequacy. One of the measures CDIC uses in determining whether a financial institution is well capitalized is an assets (as defined by CDIC) to regulatory capital multiple. CDIC regards a financial institution as being well capitalized if it maintains an assets to regulatory capital multiple of less than 85% of the Superintendent's maximum permitted assets to capital multiple for each individual institution.

The Superintendent permits the Bank to maintain an assets to capital multiple of up to 20 times. The Bank targets to be prudently below CDIC's more conservative threshold of 17 times. At December 31, 2000, the Bank's multiple was 14.2 times.

The Bank has formal capital management policies which have been approved by the Board of Directors and HSBC Holdings, and which have been reviewed by the applicable regulatory authorities. The capital management policies lay out a strict regime of capital monitoring, targets, limits and maintenance actions. The Bank's Controllers and Treasury departments manage compliance with the policies on a day-to-day basis, with weekly monitoring by the Bank's Asset and Liability Committee ("ALCO"). ALCO is chaired by the Bank's Chief Financial Officer and includes its Chief Executive Officer, Chief Operating Officer and certain other senior executives, including those responsible for credit, risk management and treasury.

The Bank employs well-developed retail and commercial relationship management performance measurement tools to ensure that shareholder capital is efficiently deployed by its major business segments. These tools measure the value added by each customer relationship against the capital required to support the risk-taking facilities granted. Capital necessary to support customers is determined according to the various requirements of the Superintendent, CDIC and BIS noted above.

The Bank monitors and adopts techniques in capital management, managing the dynamic of maximizing shareholder value against the fundamental need to be prudently capitalized.

Regulatory Capital Ratios

The Bank's regulatory capital and capital adequacy ratios and its assets to capital multiple are as follows:

	As at December 31	
	2000	1999
	(in millions, except ratios)	
Tier 1 Capital		
Common shares	**$ 935**	$ 75
Contributed surplus	**165**	165
Retained earnings	**181**	742
Non-cumulative preferred shares	**125**	270
Non-controlling interests in subsidiaries[1]	**230**	30
Goodwill	**(7)**	(8)
Total Tier 1 capital	**1,629**	1,274
Tier 2 Capital		
Subordinated indebtedness (net of amortization)	**410**	392
General allowance for credit losses	**140**	121
Total Tier 2 capital	**550**	513
Total Tier 1 and Tier 2 capital	**2,179**	1,787
Securitization-related deductions[2]	**(5)**	(23)
Total capital available for regulatory purposes	**$ 2,174**	$ 1,764
Total risk-weighted assets	**$ 18,905**	$ 16,228
Regulatory Capital Ratios		
Tier 1 capital	**8.6%**	7.9%
Total capital	**11.5%**	10.9%
Assets to capital multiple	**14.2 x**	14.9 x

(1) *Includes $200 million issue of innovative tier 1 Asset Trust Securities (HSBC HaTS).*

(2) *As at December 31, 2000, the Bank utilized $4 million of general allowances for credit losses to lower the reduction from capital for securitization issues such as first loss protection.*

Risk-weighted Assets

Risk-weighted assets requiring capital support arise from the provision to customers of credit and other risk facilities. Risk-weighted assets are determined by the Bank by applying the specific weighting factors provided by the Capital Guidelines. The Bank's risk-weighted assets are as follows:

	As at December 31	
	2000	1999
	(in millions)	
On-Balance Sheet Assets		
Cash resources	**$ 439**	$ 386
Securities	**262**	407
Mortgage loans	**3,207**	2,746
Other loans	**11,177**	9,238
Acceptances	**2,134**	1,705
Other assets	**615**	593
Total on-balance sheet assets	**17,834**	15,075
Off-Balance Sheet Instruments		
Guarantees and letters of credit	**786**	880
Other	**172**	189
Subtotal	**958**	1,069
Derivatives[1]	**113**	84
Total off-balance sheet instruments	**1,071**	1,153
Total risk-weighted assets	**$ 18,905**	$ 16,228

(1) *Derivatives are stated at their risk weighted equivalent.*

Management's Discussion and Analysis (continued)

Regulatory Capital Generation

The Bank's regulatory capital generation is as follows:

	Year ended December 31	
	2000	1999
	(in millions)	
Internally Generated Capital		
Net income	**$ 184**	$ 165
Gain on sale of HSBC InvestDirect (Canada) Inc	**88**	–
Capital from operations	**272**	165
Dividends	**(825)**	–
General allowance for credit losses	**19**	5
Other	**11**	(6)
	(523)	164
External Financing		
Issue of common equity	**860**	–
Subordinated indebtedness (net of amortization)	**18**	(228)
Preferred shares issued	**125**	270
Preferred shares redeemed	**(270)**	–
Issue of innovative instruments included in Tier 1 capital	**200**	–
Total increase in regulatory capital	**$ 410**	$ 206

In response to new regulatory capital ratio targets recommended by the Superintendent, the Bank increased its Tier 1 capital ratio to 8.6% and its total capital ratio to 11.5% as at December 31, 2000.

On June 28, 2000, the Bank completed concurrent public offerings of $125 million of class 1 Preferred Shares Series A and $200 million HSBC HaTS (Asset Trust Securities issued by HSBC Canada Asset Trust). The aggregate proceeds received by the Bank from the issue and sale of the Class 1 Preferred Shares Series A to the public and from the sale of the initial trust assets to HSBC Canada Asset Trust were approximately $320 million, net of issue costs of $4 million. The Bank used $270 million of these proceeds to redeem all of the issued and outstanding Class 2 Preferred Shares Series A held by an affiliate and the balance was used for general corporate purposes.

There was a further increase issue of common shares in August 2000 of $100 million.

As a result of a corporate restructuring within the HSBC Group, in November 2000 the Bank paid a dividend of $810 million on its common shares and received proceeds of $760 million on the issue of additional common shares.

Risk Management

All of the Bank's business activities require the management of particular risks or combinations of risks. Risk management is the identification, analysis, evaluation and management of the factors which could adversely affect the Bank's resources, operations and financial results. The risk factors most likely to affect the Bank are credit, market, liquidity and operational risks. The Bank believes that it conservatively manages its exposure to these risk factors. Formal risk management policies have been established which identify and analyze these risk elements and set appropriate risk limits. The Bank continually monitors these risks and limits by means of internal control measures which management believes are up to date and reliable.

The Bank reviews and modifies its risk management policies and systems regularly to reflect changes within the Bank and within the markets in which it operates. The Board of Directors approves the Bank's risk management policies. The Bank's overall risk management limits are set taking into account HSBC Holdings' overall risk limits. ALCO monitors and reviews risk positions against prescribed limits.

Credit Risk Management

Credit risk arises when the Bank relies on a counterparty to honour contractual obligations arising out of credit, credit substitutes (such as letters of guarantee) and contingent risk relating to derivative contracts such as foreign exchange forward contracts. Concentration of credit risk arises when a group of counterparties operate in the same or a related industry or are located in the same geographic region. The ability of such counterparties to meet their obligations would be similarly affected by a change in economic, fiscal or industry conditions.

Credit limits for the Bank are established after consultation with HSBC Holdings and are approved by the Board of Directors. All credit exposure is subject to a credit approval and review process approved by the Board of Directors. Credit authorities are delegated to senior credit management, who in turn delegate to line management. Credit exposures in excess of certain levels may require the concurrence of HSBC Holdings. The Board of Directors and the credit committee of the Board meet quarterly to set and review policies relating to large customer concentration and industry, product and geographic distribution.

Strict measurement of exposure is undertaken. A credit risk report is presented quarterly to the Board of Directors covering portfolio quality, geographic, product and industry distributions, large customer concentrations and loan provisions. All new major authorized facilities, derivative exposure and special credit problem facilities are also reviewed quarterly by the Board of Directors.

Concentrations are managed through Commercial and Personal Credit Guidelines which set out the Bank's tolerance for various types of exposure. On a quarterly basis, guidelines are approved by the Board of Directors and disseminated throughout the Bank.

The Bank employs a disciplined approach to managing risk through ongoing monitoring of all credit exposures and strict exception approval policies and proactively managing problem and impaired accounts by a separate dedicated Special Credit management unit. Formal, strictly maintained risk gradings are assigned to all clients and are monitored closely. Credit scoring and related bureau-based management techniques along with judgmental management are used to manage risk associated with consumer clients.

Real estate lending is relationship based and strictly managed. Appraisal policy is approved annually by the Board of Directors and an approved list of appraisers is maintained to ensure appropriate valuation. Environmental risk is managed through the use of approved consultants to provide opinions wherever environmental risk is identified.

A review of all credit matters undertaken by line and staff managers is completed regularly by internal auditors to ensure that all policies, guidelines, practices, conditions and terms are followed.

Management believes adequate internal controls are in place to establish and maintain the credit quality of the Bank's financial assets.

Loan Portfolio

In assessing its loan portfolio, the Bank includes all of its credit exposures including customers' liabilities under acceptances, guarantees and letters of credit. The following is an analysis of the constituents of the portfolio:

	As at December 31	
	2000	1999
	(in millions, except ratios)	
Loans included in financial statements, net of allowances	**$ 19,753**	$ 17,130
Allowances	**285**	287
Customers' liabilities under acceptances	**2,134**	1,705
Letters of credit	**408**	389
Guarantees	**970**	803
Total loans	**23,550**	20,314
Non-performing loans	**(174)**	(183)
Total performing loans	**$ 23,376**	$ 20,131

Management's Discussion and Analysis (continued)

The Bank's performing loan portfolio is comprised of commercial, personal and residential mortgage loans with an approximate split between commercial and personal loans (including residential mortgages) of 63% to 37%. The geographic distribution of the loan portfolio at December 31, 2000 was British Columbia (47.8%), Ontario (26.5%), Western Canada (including Alberta, Saskatchewan and Manitoba) (12.3%) and the Quebec and Atlantic Region (11.5%).

Performing commercial loans at December 31, 2000 aggregated $14.7 billion and were distributed across various industry sectors with the highest concentrations in real estate (27.2%), wholesale/retail trade (21.4%) and service industries (21.5%). Large customer concentrations are borrowing groups where approved facilities exceed 10% of the Bank's regulatory capital base. As at December 31, 2000, 10% of the Bank's regulatory capital base amounted to approximately $217 million.

The following tables, in which commercial includes customers' liabilities under acceptances, letters of credit and guarantees, provide details of the overall performing loan portfolio, and geographic distribution, industry distribution and large customer concentration.

Performing Loan Portfolio

	As at December 31			
	2000		1999	
	(in millions, except percentages)			
Consumer loans	**$ 1,885**	**8.1%**	$ 1,996	9.9%
Residential mortgages	**6,785**	**29.0%**	5,752	28.6%
Total consumer	**8,670**	**37.1%**	7,748	38.5%
Total commercial	**14,706**	**62.9%**	12,383	61.5%
Total performing loans	**$ 23,376**	**100.0%**	$ 20,131	100.0%

Performing Loan Portfolio Geographic Distribution

Location	As at December 31			
	2000		1999	
	(in millions, except percentages)			
British Columbia	**$ 11,183**	**47.8%**	$ 10,716	53.3%
Western Canada	**2,872**	**12.3%**	2,402	11.9%
Ontario	**6,194**	**26.5%**	5,012	24.9%
Quebec and Atlantic	**2,685**	**11.5%**	1,590	7.9%
US Branches	**442**	**1.9%**	411	2.0%
Total Performing Loans	**$ 23,376**	**100.0%**	$ 20,131	100.0%

Performing Commercial Loan Portfolio Industry Distribution

Industry	As at December 31			
	2000		1999	
	(in millions, except percentages)			
Real estate	**$ 4,007**	**27.2%**	$ 3,704	29.9%
Hotels and hospitality	**968**	**6.6%**	983	7.9%
Trade	**3,148**	**21.4%**	2,911	23.5%
Services	**3,157**	**21.5%**	2,326	18.8%
Manufacturing	**2,015**	**13.7%**	1,595	12.9%
Other	**1,411**	**9.6%**	864	7.0%
Total commercial loans	**$ 14,706**	**100.0%**	$ 12,383	100.0%
As a percentage of total performing loans	**$ 23,376**	**62.9%**	$ 20,131	61.5%

Performing Commercial Loan Portfolio
Large Customer Concentration

	As at December 31	
	2000	1999
	(in millions, except percentages)	
Large customer concentration	**$ 2,140**	$ 1,228
As a percentage of total commercial loans	**14.6%**	9.9%
As a percentage of total performing loans	**9.2%**	6.1%

Credit Quality

The Bank categorizes the credit quality of its loan portfolio as follows:

- *Satisfactory* – Borrower's financial condition and future capacity to repay is considered satisfactory.
- *Watch* – Borrower's financial condition has shown sustained or continued deterioration and requires frequent monitoring. The capacity to repay remains satisfactory.
- *Sub-standard* – Borrower's financial condition is weak. However, it is still expected that full repayment will be received.
- *Impaired* – Loans are considered impaired if an amount is contractually 90 days in arrears or management is of the opinion that there is no longer reasonable assurance as to the ultimate collectibility of all or some portion of principal or interest. Impaired loans are classified as non-performing. Specific provision is made for any anticipated loss.

The following table sets forth an analysis of the Bank's total loan portfolio on the basis of the above credit quality categories.

Performing and Non-Performing Loan Portfolio
Credit Quality

	As at December 31			
Credit Quality Rating	**2000**		1999	
	(in millions, except percentages)			
Satisfactory	**$ 22,407**	**95.1%**	$ 19,245	94.7%
Watch	**671**	**2.9%**	599	2.9%
Sub-standard	**298**	**1.3%**	287	1.4%
Impaired	**174**	**0.7%**	183	1.0%
Total loans	**$ 23,550**	**100.0%**	$ 20,314	100.0%

Approximately 95% of its total loan portfolio is categorized by the Bank to be satisfactory. Credit quality of the portfolio has remained stable over the past five years. As at December 31, 2000, $174 million (0.7%) of the loan portfolio was impaired, with specific and general allowances providing 164% (December 31, 1999 - 157%) coverage of these loans.

Impaired Loans and Allowances

Allowances for credit losses are maintained at a level to absorb all estimated credit related losses in its portfolio, which may arise from both on and off balance sheet credit exposures. These exposures include deposits with other regulated financial institutions, loan substitute securities, loans, acceptances, derivative instruments and other credit-related contingent liabilities, such as letters of credit and guarantees.

Assessing the adequacy of the allowance for credit losses is inherently subjective as it requires making estimates, including the amount and timing of expected future cash flows, that may be susceptible to significant change. Specific provisions are recorded on a loan-by-loan basis to reduce the book value to expected recovery level. A number of methods are used in determining specific allowances including discounted value of future cash flows, observable market values or the fair values of the underlying security. Impaired loans are reviewed at least quarterly and the appropriate specific provisions are recorded based on estimated net realizable amounts.

Management's Discussion and Analysis (continued)

The general allowance represents Management's best estimate of probable losses within the portion of the portfolio that have not yet been specifically identified as impaired.

During 2000, in common with the banking industry as a whole, the Bank has been developing financial and statistical models to assist in the establishment of an appropriate general allowance for credit losses. This amount would be established through the application of expected loss factors to outstanding and undrawn facilities. The general allowance for large business and government loans and acceptances in the model is based on the application of expected default and loss factors. For more homogeneous portfolios, such as residential mortgages, small and mid-market business loans and personal loans, the determination of the general allowance is done on a product portfolio basis. The losses are determined by the application of loss ratios determined through the analysis of write-off trends over an economic cycle, adjusted to reflect changes in the product offerings and credit quality of the pool. Also included are management estimates that includes consideration of general economic and business conditions, recent loan loss experience, and trends in credit quality and concentrations, particularly where the Bank's existing experience is considered low in relation to industry as a whole. This allowance also reflects model and estimation risks, but does not represent future losses. Included in the amount established in the model for general allowances, is an amount of $4 million relating to first loss protection for off balance sheet securitization. This is less than the overall general allowance as a percentage of equivalent risk weighted assets, due to the historical loss experience for similar assets.

In establishing the amount of general allowance, management has been guided by the results of the model, including adjustments made for items that cannot yet be quantitatively forecast by the model. However, a comprehensive accounting policy for establishing allowances based upon financial modelling including drawdowns against general allowances will not be concluded until the Superintendent completes industry consultations expected later in 2001 and issues further guidelines.

The Bank has taken a conservative position relative to the banking industry in Canada in establishing its general allowances. In 1998, considerable economic uncertainty existed following the downturn of the economy in British Columbia and the Asia Pacific region and the reduction in commodity prices. In view of this, particularly given the geographic mix of its loan portfolio, the Bank increased its general allowance. Although economic circumstances improved and stabilized during 2000, the British Columbia economy continued to under perform and the level of general allowances was maintained. The performance of the portfolio has been satisfactory and there has been no material change in the level of specific loan losses recorded. Although the Bank's general allowance as a percentage of risk-weighted assets has been reduced during 2000 reflecting the strong economy, the overall level continues to be conservative.

The following table provides details of the impaired loan portfolio.

Impaired Loan Portfolio

	As at December 31	
	2000	1999
	(unaudited, in millions)	
Commercial		
Real estate	$ **41**	$ 23
Manufacturing	**24**	22
Trade	**36**	33
Services	**14**	26
Other	**21**	44
Total commercial loans	**136**	148
Personal		
Consumer loans	**14**	18
Residential mortgages	**24**	17
Total personal loans	**38**	35
Total impaired loans	$ **174**	$ 183
Specific allowances	$ **51**	$ 72
General allowances	**234**	215
Total allowance for credit losses	$ **285**	$ 287
Net impaired loans	$ **(111)**	$ (104)

The following table shows net non-accrual loans as a percentage of total loans. This ratio, which is a common industry statistic used to measure the total amount of the Bank's provisions relative to total loans, is determined by dividing total impaired loans less specific and general allowances (being net impaired loans as indicated in the table above) by total loans, including customers' liabilities under acceptances, letters of credit and guarantees.

Net Non-Accrual Loans as Percentage of Total Loans
Industry Comparison

	As at December 31	
	2000	1999
HSBC Bank Canada	**(0.5%)**	(0.5%)
Average of six largest Canadian banks[1]	**(0.1%)**	(0.1%)

(1) *This percentage is derived from publicly available financial information of the six largest Canadian Schedule I banks as at October 31, in the corresponding year.*

The following table shows the coverage of specific allowances as a percentage of the related impaired loans.

Coverage of Impaired Loans

	As at December 31	
Coverage by Specific Allowance	**2000**	1999
Commercial real estate	**34%**	39%
Commercial manufacturing	**33%**	50%
Commercial other	**27%**	38%
All commercial	**30%**	40%

The following table sets out the coverage of general provisions as a percentage of total performing loans and risk-weighted assets. In view of an improving geographic and industry concentration, and past low loan loss experience, a slight decline in the coverage as a percentage of risk-weighted assets is acceptable. The general allowance represents the best estimate of probable losses within the portfolio that have not yet been specifically identified as impaired. This has been determined from the use of a statistical model plus management's adjustments for items that cannot be reliably forecast by the model.

	As at December 31	
Coverage by General Allowance	**2000**	1999
As a percentage of total performing loans[1]	**0.93%**	0.94%
As a percentage of risk-weighted assets[1]	**1.15%**	1.25%

(1) *Includes off-balance sheet securitizations.*

Provisions for Credit Losses

The following table sets out the provisions for credit losses charged to the Bank's consolidated statements of income. Specific provisions have decreased and are indicative of a high quality loan portfolio.

	As at December 31	
	2000	1999
	(in millions, except percentages)	
Specific provisions	**$ 28**	$ 35
General provisions	**11**	8
Total provision for credit losses	**$ 39**	$ 43
Specific provisions as a percentage of total loan portfolio	**0.12%**	0.17%

Management's Discussion and Analysis (continued)

Derivative Portfolio

The credit equivalent amount of derivative exposure is established by the current replacement cost of positions plus an allowance for future fluctuation of derivative contracts. Derivatives are entered into primarily to support customer requirements and to assist the Bank in its management of assets and liabilities. The credit equivalent amount of the derivative portfolio by product type is as follows:

Products	As at December 31 2000	1999
	(in millions)	
Interest rate contracts	**$ 80**	$ 75
Foreign exchange contracts	**338**	210
Equity contracts	**11**	6
Total	**429**	291
Impact of master netting agreements	**(27)**	–
Net credit equivalent amount	**$ 402**	$ 291

Market Risk Management

Market risk is the potential that interest rates, foreign exchange rates or equity prices will move and reduce the earnings of the Bank. Market risk arises on financial instruments that are valued at market prices and on those instruments valued at cost plus accrued interest.

The Bank makes markets in interest rate, exchange rate and equity derivative instruments, as well as in debt, equity and other securities. Trading risks arise either from customer-related business or principal investing activities by the Bank.

The Bank manages market risk through risk limits set out by ALCO and approved by the Board of Directors.

Risk limits are determined for each portfolio and are set by product and risk type, with market liquidity being a principal factor in determining the levels of limits set. Limits are reviewed annually using a combination of risk measurement techniques including present value of a basis point (PVBP), value at risk (VaR), foreign exchange exposure limits, maximum loss limits, options premium paid limits and product and issuance limits.

Risk limits are set for each operation and are dependent upon the size and financial and capital resources of the entity, market liquidity of the instruments traded, business plan, experience and track record of management and dealers, internal audit gradings, support function resources and computer systems. Risk limits are reviewed and set on an annual basis.

PVBP is a sensitivity measure which calculates the impact on the present value of a transaction (or a portfolio of transactions) of a one basis point movement in rates. VaR is a statistical technique which estimates the potential losses that could occur on risk positions taken due to movements in market rates and prices over a specified time horizon and to a given level of confidence.

Interest Rate Risk

Interest rate risk arises primarily out of differences in the term to maturity or repricing of the assets and liabilities both on and off balance sheet. These interest rate risk exposures, or gaps, are monitored by ALCO on a weekly basis against prescribed limits. The gap position measures assets and liabilities based on contractual repricing data as well as incorporating assumptions on customer behaviour on products with a degree of optionality as to prepayment, redemption or repricing (such as redeemable deposit products and mortgages with prepayment options). These assumptions, which are based on historical behavioural patterns, are periodically reviewed by ALCO.

The Bank believes it takes a conservative approach in setting limits on these mismatched positions. Limits are established based on the impact on net interest income of an immediate and parallel upward shift in the relevant yield curves of one percent. The Bank also has established limits on these mismatched positions in terms of Dollars at Risk, VaR and PVBP.

A variety of cash and derivative instruments (principally interest rate swaps) are used to reduce interest rate risk. Derivatives are used to modify the interest rate characteristics of related balance sheet instruments and to hedge anticipated exposures when market conditions of price and liquidity are considered beneficial.

Interest rate risk also arises in the fixed income trading activities of the Bank. Limits have been established in terms of VaR, PVBP, maximum loss limits, product and issuance limits, and premium paid limits for option contracts.

Foreign Exchange Risk

Foreign exchange risk arises from foreign currency denominated asset and liability positions taken by the Bank. The Bank buys and sells currencies in the spot, forward, futures and options markets, on behalf of its customers and for its own account, to manage its own currency exposures arising from assets and liabilities denominated in currencies other than the Canadian dollar. Limits have been established as to the magnitude of the exposure on a currency-by-currency basis as well as maximum loss limits on any position held.

Equity Risk

Equity risk arises as a result of movements in the price of equity positions taken and held principally by HSBC Securities. Limits have been established in terms of permitted instruments, open positions, notional aggregate long or short positions, maximum loss limits, single stock limits, premium paid limits and currency limits.

Liquidity Risk Management

The Bank manages the liquidity structure of its assets, liabilities and commitments so that cash flows are appropriately balanced and all funding obligations are met when due. The Bank also ensures compliance with Canadian regulatory requirements. The Bank's treasury department manages liquidity on a day-to-day basis.

ALCO oversees compliance with liquidity requirements on a weekly basis by monitoring:

- projected cash flows and the levels of related liquid assets,
- specified balance sheet liquidity ratios against prescribed limits,
- depositor concentration in terms of overall funding mix and to avoid undue reliance on large individual and non-core depositors, and
- liquidity contingency plans.

Customer deposits form a significant portion of the Bank's overall funding. Considerable importance is placed on the stability and growth of this core deposit base. Capital markets are accessed for the purposes of providing additional funding, maintaining a presence in the marketplace and aligning asset and liability maturities.

Limits have been established for balance sheet ratios and minimum periods of forecast positive cumulative cash flow as well as contingencies to meet a cash flow squeeze.

Operational Risk Management

Operational risk is the risk of economic loss arising through fraud, unauthorized activities, errors, omissions or significant inefficiency. It also covers settlement risk arising from the large number of banking transactions that occur daily in the normal course of business. It is inherent in every business organization and covers a wide spectrum of issues.

The Bank manages operational risk through disciplined application and evaluation of internal controls, appropriate segregation of duties, independent authorization of transactions and reconciliation and monitoring of transactions on a regular and systematic basis. This is supported by an independent program of periodic reviews undertaken by the Bank's Internal Audit department. The Bank also maintains contingency facilities to support operations in the event of a disaster. Daily settlement limits are also maintained to ensure that the exposure to counterparties is kept at an acceptable level, assisted by certain transfer systems, such as the large value transfer system, which assure finality of payment for individual transactions greater than $50 million.

Management's Discussion and Analysis (continued)

Analysis of Financial Results and Operations by Business Segments

The following is a summary of selected consolidated financial information and other data for each of the Bank's major business segments.

Year ended December 31, 2000

	Personal financial services	*Commercial financial services*	*Corporate and institutional banking*	*Treasury and markets*	*Total*
			(in millions, except ratios)		
Net interest income	**$ 300**	**$ 312**	**$ 24**	**$ 30**	**$ 666**
Other income	**211**	**152**	**17**	**82**	**462**
Total net interest income and other income	**$ 511**	**$ 464**	**$ 41**	**$ 112**	**$ 1,128**
Net income(1)	**$ 70**	**$ 96**	**$ 17**	**$ 29**	**$ 212**
Percentage of total net income	**33.0%**	**45.3%**	**8.0%**	**13.7%**	**100.0%**
Average assets	**$ 9,287**	**$ 11,061**	**$ 2,193**	**$ 5,942**	**$ 28,483**
Percentage of total average assets	**32.6%**	**38.8%**	**7.7%**	**20.9%**	**100.0%**

(1) *Before unallocated corporate expenses of $28 million, net of income taxes.*

Year ended December 31, 1999

	Personal financial services	*Commercial financial services*	*Corporate and institutional banking*	*Treasury and markets*	*Total*
			(in millions, except ratios)		
Net interest income	$ 249	$ 236	$ 25	$ 30	$ 540
Other income	165	127	12	80	384
Total net interest income and other income	$ 414	$ 363	$ 37	$ 110	$ 924
Net income(1)	$ 67	$ 67	$ 18	$ 40	$ 192
Percentage of total net income	34.9%	34.9%	9.4%	20.8%	100.0%
Average assets	$ 8,913	$ 9,319	$ 1,980	$ 5,794	$ 26,006
Percentage of total average assets	34.3%	35.8%	7.6%	22.3%	100.0%

(1) *Before unallocated corporate expenses of $27 million, net of income taxes.*

Personal Financial Services

Client Base. Personal Financial Services provides services to individuals through a segmented approach to understanding and meeting customer needs.

Products and Services. Personal Financial Services offers a comprehensive range of financial products and services, including the following:

Retail Banking	*Asset Management*	*Brokerage*	*Insurance*	*Direct Sale Trust and Advisory*
Deposits and personal chequing accounts	Mutual funds	Full service (Self directed through Merrill Lynch HSBC)	Auto	Estate planning
Residential mortgages	Segregated funds		Home	Wills
Lines of credit	Personal portfolio management			Investment administration
Personal loans				Executor and trustee services
Investments				
Credit cards				
Telephone, Internet and PC banking				
HSBC *Premier*				

Delivery Channels. The Bank provides personal financial products and services through over 160 offices, including 120 branches, as well as ABMs, direct debit and other electronic delivery channels such as the Internet, PC and telephone call centres. HSBC mutual fund customers can access Telefund, a 24 hour telephone service which accepts mutual fund trading orders and also provides general mutual fund information, unit prices, market commentaries and fund performance for the Bank's mutual funds. HSBC Securities delivers full service brokerage through 150 retail investment advisors located in cities across Canada.

During 2000, HSBC InvestDirect (Canada) Inc was transferred to the Merrill Lynch HSBC joint venture, which commenced active operations in November and December in Canada and Australia respectively. A close working relationship has been retained and is expected to be mutually beneficial. Now renamed Merrill Lynch HSBC Canada Inc., it provides on-line, real time trading on stock exchanges in North America and Hong Kong SAR through Internet delivery capability, and also accepts telephone orders, through the company's global toll-free telephone network. It can deliver service for all major exchanges in Europe, North America and the Asia Pacific region. Customers can benefit from the strategic combination of Merrill Lynch's worldwide investment capabilities and award-winning research team together with HSBC's global presence, client relationships and processing capabilities. The financial position and operating results of Merrill Lynch HSBC Canada Inc. are not consolidated with the Bank.

Home and auto insurance is delivered on a direct sale basis to residents of British Columbia and Alberta through HSBC Canadian Direct Insurance Incorporated.

Segmentation. The Bank is growing its individual client base and market share using a segmented approach to meet client needs. This is achieved by ensuring that clients with more extensive requirements receive a greater level of advisory service and by encouraging clients with more conventional transactions to utilize those delivery channels that most conveniently meet their needs. For example, private banking, through a relationship manager, provides targeted clients with a full complement of investment funds and services to plan, manage and protect their assets. A further enhancement to this segmented approach was the introduction of HSBC *Premier*, a global product offering an exclusive suite of banking, credit and investment services and special privileges.

Management's Discussion and Analysis (continued)

Selected Financial Information and Analysis. The following sets out selected consolidated financial information and other data for Personal Financial Services.

	Year ended December 31	
	2000	1999
	(in millions, except ratios)	
Net interest income	**$ 300**	$ 249
Provision for credit losses	**(11)**	(9)
Other income	**211**	165
Non-interest expenses	**(372)**	(306)
Income before taxes	**128**	99
Provision for income taxes	**(56)**	(32)
Non controlling interest in income of subsidiaries	**(2)**	–
Net income	**$ 70**	$ 67
Average Assets	**$ 9,287**	$ 8,913
Other income percentage	**41.3%**	39.9%
Cost: income ratio	**72.8%**	73.9%

Personal Financial Services contributed $70 million (33.0%) to the Bank's total net income for the year ended December 31, 2000, before unallocated corporate expenses. With $9.3 billion in average assets, Personal Financial Services represented 32.6% of the Bank's total average assets for that year.

Increases in prime and base lending rates along with lower funding costs resulted in higher net interest income, specifically an increase of 20.5% over 1999. Other income increased significantly over the last two years partially as a result of acquisitions as well as from organic growth and securitizations. Most of the increase came from investment and securities services revenues, a substantial amount of which occurred in the first half of 2000 as a result of favourable market conditions. Non-interest expenses increased over last year due in part to performance-based compensation as well as volume-driven transaction expenses. Both of these expense items are associated with increases in other income. However processing efficiencies through establishment of regional customer service centres have partially contributed to a slight improvement in the cost:income ratio.

In February 2000, the Bank's mutual fund family was ranked by the Globe and Mail's "Special Report on Mutual Funds" as the best mutual fund family in Canada, with 93% of its funds outperforming the average in their category based on one-year performance for the period ended December 31, 1999. The funds are managed by HSBC Asset Management and HSBC's global investment advisory and fund management business.

The acquisition of Republic Canada in April 2000 expanded the Bank's presence in Ontario and Quebec. This merger allows the Bank to explore and capitalize on various cross-selling opportunities for providing the full range of its products and services to Republic Canada's customer base.

As part of its global initiatives, HSBC recently invested approximately $17 million to expand its systems development facility in Burnaby, British Columbia. Products currently under development include interactive financial services, which are expected to provide customers with anytime, anywhere access to their accounts through a variety of electronic media. The Bank is taking a leading role in these developments and expects to improve its operations and customer service as a result of these and other HSBC e-business initiatives, including Internet banking which was successfully launched in 2000. HSBC Bank Canada's highly successful mutual fund family has recently launched a global technology fund, which provides customers with the opportunity to further diversify their portfolios and benefit from HSBC's global connections.

Commercial Financial Services

Client Base. Commercial Financial Services provides a comprehensive range of financial services and products to Canadian commercial and corporate clients.

Products and Services. Commercial Financial Services provides lending, treasury, trade finance, investment banking and other financial services and products to businesses in Canada, including the following:

Commercial and Corporate Banking	*Asset Management*	*Investment Banking*	*Merchant Banking*	*Treasury*	*Trade Finance*
Lines of Credit Term financing Deposits Payments and cash management Leasing Merchant card services and point of sale terminals	Portfolio and fund management Group RRSP	Corporate Finance Mergers and acquisitions Advisory	Mezzanine finance Subordinated debt Working capital Private equity	Foreign exchange Deposits Fixed income Derivatives	Import and export finance

The Bank's trade finance operations continue to be a market leader, particularly for import letters of credit. Leveraging HSBC's global network, trade finance has traditionally been and continues to be a key competitive strength of the Bank. The acquisition of Republic National Bank of New York has significantly increased HSBC's presence in the United States and the Bank expects to be able to utilize this to provide increased opportunities to assist cross border mid-market multinationals, particularly in the key southern Ontario market.

Delivery Channels. The Bank provides commercial financial services through commercial branches and subsidiary offices, including those of HSBC Securities, HSBC Capital and HSBC Asset Management, as well as through HSBC offices in 79 other countries and territories. Other delivery channels include the Internet, PC and telephone banking. HSBC's proprietary global payments and cash management platform, *Hexagon*, enables electronic account balance and transaction information, transfer of funds, bill payment and processing of trade finance documents.

Commercial Financial Services customers are assigned a relationship manager to facilitate their interface with HSBC globally. The Bank also offers specialist relationship managers for professional partnerships and owner/operators in key markets. This has resulted in responsiveness and flexibility in the credit approval process, a factor which the Bank believes is a significant competitive advantage.

Selected Financial Information and Analysis. The following sets out consolidated financial information and other data for Commercial Financial Services.

	As at December 31	
	2000	1999
	(in millions, except ratios)	
Net interest income	**$ 312**	$ 236
Provision for credit losses	**(25)**	(32)
Other income	**152**	127
Non-interest expenses	**(263)**	(232)
Income before taxes	**176**	99
Provision for income taxes	**(76)**	(32)
Non controlling interest in income of subsidiaries	**(4)**	–
Net income	**$ 96**	$ 67
Average assets	**$ 11,061**	$ 9,319
Other income percentage	**32.8%**	35.0%
Cost:income ratio	**56.7%**	63.9%

Management's Discussion and Analysis (continued)

Commercial Financial Services contributed $96 million (45.3%) to the Bank's total net income before unallocated corporate expenses for the year ended December 31, 2000. With $11 billion in average assets, Commercial Financial Services represented 38.8% of the Bank's total average assets for the year.

Increases in prime and base lending rates along with lower funding costs as well as steadily increasing average loan balances, have resulted in higher net interest income, with an increase of 32.2 % over 1999. A close focus on pricing of facilities has also provided a strong contribution. Other income increased 19.7% over 1999. Most of the increase was derived from securities services revenues, particularly corporate finance fees. Non-Interest expenses increased due in part to performance based compensation as well as volume-driven transaction expenses. The percentage growth in total revenue, for this segment, was higher than the percentage growth in expenses, which is reflected in a steadily improving cost:income ratio. Benefits derived from centralized administrative functions and staffing efficiencies have also contributed to cost:income ratio improvements.

The Bank is focused on enhancing its electronic banking platforms in the small and medium enterprise market to complement its branch network. The first phase of an expanded Internet banking service for commercial clients, which is designed to enhance HSBC's proprietary global payments and cash management platform, *Hexagon*, is planned for launch in 2001. Services planned for this phase include Internet foreign exchange dealing, bill presentment, and digital authentication. Internet trade services are expected to be launched in 2002. Automated credit scoring and management tools are also being developed to improve cost:income ratios in Commercial Financial Services. At the systems development facility in Burnaby, an Internet-based gateway is currently being developed for origination of Commercial Financial Services transactions, particularly for small to medium sized enterprises.

The acquisition of Gordon Capital in 1999 has considerably strengthened the Bank's investment banking capabilities. Joint marketing initiatives between HSBC Securities and Commercial Financial Services relationship managers aimed at cross-selling investment banking services to the Bank's commercial and corporate clients resulted in significant improvements in investment banking revenues from mid-market clients.

The acquisition of Republic Canada in April 2000 added a commercial loan portfolio of approximately $930 million as at April 1, 2000, primarily concentrated in Ontario and Quebec. This portfolio has expanded the Bank's presence in these markets and added new industry segments to its existing loan portfolio.

Corporate and Institutional Banking

Client Base. Corporate and Institutional Banking provides a comprehensive range of financial services to an international group of HSBC's large multinational clients. The Bank's Corporate and Institutional Banking focus is on entities that have a need for global value added products through investment banking, structured lending and trade services.

Products and Services. Corporate and Institutional Banking provides the following products and services:

Corporate Banking	*Asset Management*	*Investment Banking*	*Treasury*	*Trade Finance*
Lines of credit Term financing Deposits Payments and cash management Leasing	Portfolio and fund management Group RRSP	Corporate finance Mergers and acquisitions Advisory	Foreign exchange Deposits Fixed income Derivatives	Import and export finance

Delivery Channels. The Bank provides Corporate and Institutional Banking services through its principal branches and subsidiary offices, coordinated with HSBC global operations. HSBC's proprietary global payments and cash management platform, *Hexagon*, is linked electronically to HSBC offices around the world.

Corporate and Institutional Banking customers deal with HSBC worldwide through a relationship manager. The Bank provides relationship management coverage to Canadian-based multinational clients and delivers services to other multinational clients of HSBC. The Bank's ability to leverage HSBC's global network in providing comprehensive corporate and investment banking services to sophisticated multinational clients is a significant competitive advantage.

Selected Financial Information and Analysis. The following sets out consolidated financial information and other data for Corporate and Institutional Banking.

	Year ended December 31	
	2000	1999
	(in millions, except ratios)	
Net interest income	**$ 24**	$ 25
Provision for credit losses	**(3)**	(2)
Other income	**17**	12
Non-interest expenses	**(7)**	(9)
Income before taxes	**31**	26
Provision for income taxes	**(13)**	(8)
Non controlling interest in income of subsidiaries	**(1)**	–
Net income	**$ 17**	$ 18
Average assets	**$ 2,193**	$ 1,980
Other income percentage	**41.5%**	32.4%
Cost:income ratio	**17.1%**	24.3%

Corporate and Institutional Banking contributed $17 million (8.0%) to the Bank's total net income for the year ended December 31, 2000, before unallocated corporate expenses. With $2.2 billion in average assets, Corporate and Institutional Banking represented 7.7% of the Bank's total average assets for that year.

Net interest income decreased by 4.0% over 1999, partially as a result of increased bankers acceptance financing by some of the largest clients. Other income increased substantially, partially as a result of increased fees from bankers' acceptances and increases in trade finance income. Non-interest expenses decreased by 22% over 1999, mainly due to a lower cost allocations to this segment.

Treasury and Markets

The three principal activities of Treasury and Markets are client trading and facilitation, proprietary trading and balance sheet management.

Client Base. The Bank utilizes HSBC's global treasury and capital markets capabilities to enhance the opportunities to serve its clients. HSBC's presence in these markets ranks among the largest in the world, serving governments, supra-nationals, multinational and domestic corporations and institutional and private investors.

Products and Services. Treasury and Markets provides the following products and services:

Client Trading and Facilitation	*Proprietary Trading*	*Balance Sheet Management*
Foreign exchange	Foreign exchange	Foreign exchange hedging
Derivatives	Fixed income securities	Interest rate hedging
Bankers' acceptances	Derivatives	Funding
Treasury bills	Equity trading	Investment/money market
Commercial paper	Client facilitation	Liquidity management
Medium term notes	Equity structured trading	
Equity sales and trading		
Equity research		

Delivery Channels. The Bank services its domestic market through treasury operations in Toronto, Vancouver, Montreal and Calgary. Basic treasury products are also delivered through the Bank's branches and through HSBC's proprietary global payments and cash management platform, *Hexagon*. Institutional equity research, sales and trading services in Canadian securities are provided from offices in Toronto, Montreal, Calgary, Vancouver, New York, Boston and London.

Equity structured trading, which capitalizes on short-term arbitrage opportunities in North American equity markets, operates through offices in Toronto.

Management's Discussion and Analysis (continued)

Selected Financial Information and Analysis. The following sets out selected consolidated financial information and other data for Treasury and Markets.

	Year ended December 31	
	2000	1999
	(in millions, except ratios)	
Net interest income	**$ 30**	$ 30
Other income	**82**	80
Non-interest expenses	**(59)**	(51)
Income before taxes	**53**	59
Provision for income taxes	**(23)**	(19)
Non controlling interest in income of subsidiaries	**(1)**	–
Net income	**$ 29**	$ 40
Average assets	**$ 5,942**	$ 5,794
Other income percentage	**73.2%**	72.7%
Cost:income ratio	**52.7%**	46.4%

Treasury and Markets contributed $29 million (13.7%) to the Bank's total net income for the year ended December 31, 2000, before unallocated corporate expenses. With $5.9 billion in average assets, Treasury and Markets represented 20.9% of the Bank's total average assets for that year.

Net interest income remained stable while other income has increased by 2.5% over 1999. The increase in other income arose from treasury trading activities such as foreign exchange and derivative trading, including a contribution from treasury activities acquired from Republic Canada. This was offset by a reduction in the contribution of equity structured trading. Non-interest expenses increased over last year mainly as a result of volume-driven transaction expenses and a greater allocation of overhead costs related to the trading activities undertaken by HSBC Securities.

Consolidated Financial Statements

Statement of Management's Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements of HSBC Bank Canada have been prepared by, and are the responsibility of, the Bank's management. The presentation and information provided therein have been prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada ("the Superintendent"). The financial statements necessarily include amounts based on informed judgements and estimates of the expected effects of current events and transactions with appropriate consideration to materiality.

In meeting its responsibility for the reliability of financial information, management relies on comprehensive internal accounting, operating and system controls. The Bank's overall controls include an organizational structure providing for effective segregation of responsibilities, delegation of authority and personal accountability; written communication of policies and procedures of corporate conduct throughout the Bank and careful selection and training of personnel; the regular updating and application of written accounting and administrative policies and procedures necessary to ensure adequate internal control over transactions, assets and records; as well as a continued program of extensive internal audit covering all aspects of the Bank's operations. These controls are designed to provide reasonable assurance that financial records are reliable for preparing financial statements and maintaining accountability for assets, that assets are safeguarded against unauthorized use or disposition and that the Bank is in compliance with all regulatory requirements including compliance with the Canada Deposit Insurance Corporation ("CDIC") Standards of Sound Business & Financial Practices. Annually, the Bank completes the Standards Assessment and Reporting Program ("SARP") which details the Bank's compliance with the CDIC standards.

The Superintendent, at least once a year, makes such examination and enquiry into the affairs of the Bank as he feels necessary to satisfy himself that the provisions of the Bank Act, having reference to the safety of the deposits and the Parent of the Bank, are being duly observed and that the Bank is in a sound financial position.

The Board of Directors oversees management's responsibilities for financial statements through the Audit Committee, which is composed solely of directors who are not officers or employees of the Bank. The Audit Committee meets four times per year. During each year it reviews the adequacy of internal controls over accounting and financial reporting systems and discusses with the internal and external auditors the overall scope, timing and specific plans for their respective audits. The Audit Committee reviews with management and the Shareholders' auditors the content and format of the Bank's financial statements. As part of this process it reviews the adoption of and changes in accounting principles and practices that have a material effect on the Bank's financial statements and key management estimates and judgements material to those statements. The Committee also considers, for review by the Board and approval by the Parent, the engagement or re-appointment of the Shareholders' auditors. The annual SARP is approved by the Board.

The Shareholders' auditors, the Bank's Vice-President and Chief Auditor and the Superintendent have full and free access to the Audit Committee to discuss audit, financial reporting and related matters.

Martin J. G. Glynn
President and Chief Executive Officer

R. K. McGregor
Chief Financial Officer

January 19, 2001
Vancouver, Canada

Auditors' Report

To the Shareholders of HSBC Bank Canada

We have audited the consolidated balance sheets of HSBC Bank Canada as at December 31, 2000 and 1999 and the consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada.

KPMG LLP

KPMG LLP
Chartered Accountants

Ernst + Young LLP

Ernst & Young LLP
Chartered Accountants

January 19, 2001
Vancouver, Canada

Consolidated Balance Sheets

As at December 31 *(in millions of dollars)*

	2000	1999
Assets		
Cash resources:		
Cash and deposits with Bank of Canada	**$ 375**	$ 341
Deposits with regulated financial institutions	**1,997**	1,954
	2,372	2,295
Securities: (note 2)		
Issued or guaranteed by Canada and provinces	**2,990**	2,349
Other securities	**805**	498
	3,795	2,847
Securities purchased under reverse repurchase agreements	**436**	378
Loans: (notes 3 & 4)		
Commercial loans	**11,330**	9,634
Residential mortgage loans	**6,809**	5,769
Consumer loans	**1,899**	2,014
Allowance for credit losses	**(285)**	(287)
	19,753	17,130
Other:		
Customers' liability under acceptances	**2,134**	1,705
Land, buildings and equipment (note 5)	**118**	124
Other assets (note 6)	**830**	572
	3,082	2,401
	$ 29,438	$ 25,051

See notes to consolidated financial statements

	2000	1999
Liabilities and Shareholders' Equity		
Deposits: (note 7)		
Regulated financial institutions	**$ 707**	$ 1,303
Individuals	**12,116**	10,858
Businesses and governments	**10,688**	8,009
	23,511	20,170
Other:		
Acceptances	**2,134**	1,705
Securities sold under repurchase agreements	**15**	179
Other liabilities (note 8)	**1,720**	1,323
Non-controlling interest in subsidiaries (note 9)	**230**	30
	4,099	3,237
Subordinated debentures (note 10)	**422**	392
Shareholders' equity:		
Capital stock (note 11)		
Preferred	**125**	270
Common	**935**	75
Contributed surplus	**165**	165
Retained earnings	**181**	742
	1,406	1,252
	$ 29,438	$ 25,051

Approved by the Board:

James H. Cleave
Chairman of the Board

Martin J. G. Glynn
President and Chief Executive Officer

Consolidated Statements of Income

For the years ended December 31 *(in millions of dollars except per share amounts)*

	2000	1999
Interest and dividend income:		
Loans	$ 1,444	$ 1,201
Securities	174	172
Deposits with regulated financial institutions	146	120
Total interest and dividend income	1,764	1,493
Interest expense:		
Deposits	1,068	912
Debentures	30	41
Total interest expense	1,098	953
Net interest income	666	540
Provision for credit losses (note 4)	39	43
Net interest income after provision for credit losses	627	497
Other income (note 12)	462	384
Net interest and other income	1,089	881
Non-interest expenses:		
Salaries and employee benefits	385	339
Premises and equipment expenses, including amortization	108	101
Other	249	197
Total non-interest expenses	742	637
Income before provision for income taxes and non-controlling interest in income of subsidiaries	347	244
Provision for income taxes (note 14)	155	79
Non-controlling interest in income of subsidiaries	8	–
Net income	184	165
Preferred share dividends	15	–
Net income applicable to common shares	$ 169	$ 165
Average number of common shares outstanding (000's)	325,305	280,168
Basic earnings per common share	$ 0.52	$ 0.59

See notes to consolidated financial statements

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31 *(in millions of dollars)*

	2000	1999
Preferred shares: (note 11)		
Balance at beginning of year	**$ 270**	$ –
Issued	**125**	270
Redeemed	**(270)**	–
Balance at end of year	**125**	270
Common shares: (note 11)		
Balance at beginning of year	**75**	75
Issued	**860**	–
Balance at end of year	**935**	75
Contributed surplus:		
Balance at beginning and end of year	**165**	165
Retained earnings:		
Balance at beginning of year	**742**	577
Effect of accounting changes (note 24)	**(4)**	–
As restated	**738**	577
Net income	**184**	165
Gain on sale of subsidiary (note 23)	**88**	–
Preferred share dividends	**(15)**	–
Common share dividends	**(810)**	–
Share issuance costs	**(4)**	–
Balance at end of year	**181**	742
Total shareholders' equity	**$ 1,406**	$ 1,252

See notes to consolidated financial statements

Consolidated Statements of Cash Flows

For the years ended December 31 *(in millions of dollars)*

	2000	1999
Cash flows provided by (used in) operating activities:		
Net income	**$ 184**	$ 165
Adjustments to net income to determine net cash provided by (used in) operating activities:		
Amortization	**40**	31
Provision for credit losses (note 4)	**39**	43
Future income taxes (note 14)	**24**	(40)
Change in net accrued interest	**12**	5
Net (increase) decrease in other assets, net of accrued interest receivable	**(414)**	533
Net increase (decrease) in other liabilities, net of accrued interest payable	**443**	(424)
Net (increase) in trading securities	**(545)**	(85)
Other, net	**(9)**	(7)
	(226)	221
Cash flows provided by (used in) financing activities:		
Net increase (decrease) in deposits	**2,275**	(380)
Securities sold under repurchase agreements	**(164)**	(134)
Proceeds from preferred shares issued	**125**	270
Proceeds from common shares issued	**860**	–
Proceeds from debentures issued	**25**	50
Proceeds from asset trust securities issued	**200**	–
Redemption of debentures	**–**	(270)
Redemption of preferred shares	**(270)**	–
Issuance costs	**(4)**	–
Dividends paid	**(825)**	–
	2,222	(464)
Cash flows provided by (used in) investing activities:		
Net (increase) in loans, excluding securitizations	**(2,297)**	(1,278)
Proceeds from loans securitized	**606**	1,566
Net (increase) decrease in investment securities	**(391)**	686
Securities purchased under reverse repurchase agreements	**(58)**	41
Net decrease (increase) in non-operating deposits with regulated financial institutions	**169**	(2)
Businesses acquired (note 22):	**(124)**	(88)
Less cash and cash equivalents at date of acquisition	**270**	16
Proceeds from sale of subsidiary (note 23):	**110**	–
Less cash and cash equivalents at date of sale	**(6)**	–
Net increase in land, buildings and equipment	**(29)**	(42)
	(1,750)	899
Increase in cash and cash equivalents	**246**	656
Cash and cash equivalents, beginning of year	**2,092**	1,436
Cash and cash equivalents, end of year	**$ 2,338**	$ 2,092
Represented by:		
Cash resources per consolidated balance sheet:	**$ 2,372**	$ 2,295
Less non-operating deposits with regulated financial institutions[1]	**(34)**	(203)
Cash and cash equivalents, end of year	**$ 2,338**	$ 2,092
Cash disbursements made for:		
Interest	**$ 1,047**	$ 1,046
Income taxes	**$ 133**	$ 91

(1) *Deposits are comprised primarily of cash which reprices after 90 days and cash restricted for recourse on securitization transactions.*

See notes to consolidated financial statements

Notes to Consolidated Financial Statements

December 31, 2000 and 1999 *(all tabular amounts are in millions of dollars)*

HSBC Bank Canada (the Bank) is a wholly owned subsidiary of HSBC Republic Holdings (Luxembourg) S.A. and, as a result, is an indirectly held, wholly owned subsidiary of HSBC Holdings plc (the Parent). In these consolidated financial statements, Group means the Parent and its subsidiary companies.

1 Accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada. Certain prior period amounts have been reclassified to conform with the current year presentation. The significant accounting policies used in the preparation of these financial statements are summarized below.

a *Basis of consolidation*

The assets and liabilities and results of operations of the Bank and its subsidiaries are reported in the financial statements on a consolidated basis. All material intercompany transactions have been eliminated.

b *Use of estimates in preparation of consolidated financial statements*

The preparation of the consolidated financial statements of the Bank requires management to make estimates and assumptions based on information available as of the date of the financial statements. Therefore, actual results could differ from those estimates.

c *Deposits with regulated financial institutions*

Deposits with regulated financial institutions are recorded at cost. Interest income on interest earning deposits is recorded on an accrual basis.

d *Securities*

Investment account securities, where the Bank's intention is to hold the securities to maturity or until market conditions render alternative investments more attractive, are carried at cost or amortized cost. If the securities held for investment account experience a decline in value that is other than temporary, the carrying value is appropriately reduced. The amortization of premiums and discounts and adjustments to the carrying value of debt securities are included in interest income. Gains and losses on the disposal of securities are included in other income.

Trading account securities, which are purchased for resale over a short period of time, are carried at market value. Gains and losses on disposal or revaluation are included in other income.

Loan substitute securities are customer financings structured as after-tax investments to provide the borrower with an interest rate advantage over what would otherwise be applicable on a conventional loan. Such securities are accorded the accounting treatment applicable to loans.

e *Loans*

Loans are stated net of any unearned income, unamortized premiums or discounts and an appropriate allowance for credit losses.

Interest income is recorded on the accrual basis unless the loan is classified as an impaired loan. Loans are considered to be impaired whenever there is no longer reasonable assurance as to the ultimate collectibility of some portion of principal or interest. Loans where interest is due and has not been collected for a period of 90 days are automatically recognized as impaired, unless management determines there is no reasonable doubt as to the ultimate collectibility of principal and interest. Loans where interest is due and has not been collected for a period of 180 days are automatically classified as impaired.

Impaired loans are recorded at their estimated realizable amounts. This is determined by discounting the expected future cash flows at the effective interest rate inherent in the loans. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, they are measured at the fair value of any security underlying the loans, net of expected costs of realization. When a loan is classified as impaired, recognition of interest in accordance with the terms of the original loan agreement ceases. Subsequent payments (interest or principal) received on an impaired loan are recorded as a reduction of the recorded investment in the loan. Interest income is recognized only when all allowances for credit losses have been reversed.

Fees associated with lending activities are deferred and amortized over the term of the loans, and are included in income from loans in the consolidated statement of income.

Notes to Consolidated Financial Statements (continued)

1 Accounting policies *(continued)*

f *Direct finance leases*

Direct finance leases are included in commercial loans in the balance sheets. Initial direct costs of direct finance leases are expensed as incurred. The investment in the lease is defined as the minimum lease payments receivable, including the purchase option price, less unearned income.

g *Allowance for credit losses*

The Bank maintains an allowance for credit losses which is considered adequate to absorb all estimated credit related losses in its portfolio of both on and off-balance sheet items, including deposits with other regulated financial institutions, loan substitute securities, loans, acceptances, derivative instruments and other credit-related contingent liabilities, such as letters of credit and guarantees.

Assessing the adequacy of the allowance for credit losses is inherently subjective as it requires making estimates, including the amount and timing of expected future cash flows, that may be susceptible to significant change.

Specific allowances are recorded for specific credit exposures to reduce the carrying value of an impaired asset to its estimated net realizable amount. Credit exposures are reviewed on a regular basis and provisions established on an item by item basis, as they are identified. The review process is performed by the Risk Management and Credit Services department, which is independent of the credit approval function.

A number of methods are used in determining specific allowances including discounted value of future cash flows, observable market values or the fair values of the underlying security.

The general allowance represents the best estimate of probable losses within the portion of the portfolio that have not yet been specifically identified as impaired. This amount is established through the application of expected loss factors to outstanding and undrawn facilities. The general allowance for large business and government loans and acceptances is based on the application of expected default and loss factors. For more homogeneous portfolios, such as residential mortgages, small and mid-market business loans and personal loans the determination of the general allowance is done on a product portfolio basis. The losses are determined by the application of loss ratios determined through the analysis of write-off trends over an economic cycle, adjusted to reflect changes in the product offerings and credit quality of the pool. Also included are management estimates that include consideration of general economic and business conditions, recent loan loss experience, and trends in credit quality and concentrations. This allowance also reflects model and estimation risks. This allowance does not represent future losses.

The provision for credit losses is charged to the consolidated statement of income and comprises the amounts written off during the year, net of recoveries on amounts written off in prior years, and changes in provisions.

h *Securities purchased and sold under repurchase agreements*

Securities purchased under reverse repurchase agreements consist of securities, such as government or other bonds, purchased by the Bank with a commitment to be repurchased by the original seller at a future specified date and price. Securities sold under repurchase agreements represent securities sold with a commitment for repurchase by the Bank at a future specified date and price. Both of these types of agreements are carried on the consolidated balance sheet at the amounts at which the securities were initially acquired or sold. Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are included in interest income and interest expense, respectively.

i *Land, buildings and equipment*

Land is carried at cost. Buildings, leasehold improvements and equipment are carried at cost, less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful life of the related asset as follows: buildings - 40 years, equipment - 3 to 5 years, and leasehold improvements - 10 to 15 years.

j *Goodwill and other intangible assets*

Goodwill represents the excess price paid for the acquisition of subsidiaries over the fair value of the net assets acquired and is recorded in other assets. Identifiable, reliably measured other intangible assets resulting from acquisition of subsidiaries are also recorded in other assets. Both goodwill and other intangible assets are amortized over the estimated period of benefit, not exceeding 15 years, except where a writedown is required to reflect impairment that is other than temporary.

1 Accounting policies *(continued)*

k *Acceptances*

The Bank's potential liability under acceptances is reported as a liability in the consolidated Balance Sheets. The Bank has equal and offsetting claims against its customers in the event of a call on these commitments, which are reported as an asset. Fees earned are reported in other income.

l *Income taxes*

Effective January 1, 2000 the Bank adopted CICA Section 3465 (see note 24) which requires a change from the deferral method to the liability method of accounting for income taxes. Under this new standard, future income tax assets and future income tax liabilities are determined based on temporary differences (differences between the tax basis and accounting basis of assets and liabilities) and are measured using the enacted or substantively enacted, tax rates expected to apply when the asset is realized or the liability is settled. A valuation allowance is recorded against any future tax asset if it is more likely than not that the asset will not be realized. Income tax expense or benefit is the sum of the provision for current income taxes and the difference between the opening and ending balances of the future income tax assets and liabilities.

Up to December 31, 1999, the Bank followed the tax allocation basis of accounting for income taxes, whereby income taxes on specific transactions were recorded in the period in which the transactions were recognized for accounting purposes regardless of when the transactions were recognized for tax purposes. Deferred income taxes were provided to recognize the effect of timing differences for those items of income and expense that may affect income for tax purposes in a period different from that in which they affect income for accounting purposes.

m *Employee future benefits*

Effective January 1, 2000 the Bank adopted CICA Section 3461 (see note 24) which requires that all costs of future employee benefits be accrued over the periods in which the employees render services. The calculation of the accrued benefit obligation is made using current settlement discount rates. Future obligations are determined using management's best estimates of various assumptions, such as health care and life insurance benefits, for employees after retirement.

Up to December 31, 1999 the cost of post-retirement benefit obligations, other than pensions, were accounted for on a "pay as you go" basis. In addition, the calculation of the accrued benefit obligation relating to future pension benefits utilized a projected rate of return on investments based on current rates and historic experience.

The effect of the new standard required recognition of a transitional obligation as at January 1, 2000 amounting to $38 million. As the Bank has chosen to adopt the new standard on a prospective basis, this transitional obligation is amortized as a part of periodic post-retirement benefit costs, other than pension costs, over the estimated average remaining service period of active employees expected to receive benefits under the plans, which has been estimated at 20 years.

The Bank has two defined benefit pension plans and a number of defined benefit pension arrangements for employees based on years of service and average earnings prior to retirement and a non-contributory defined contribution plan. In addition it has a plan which provides for a number of future benefits including extended health and dental insurance benefits payable after retirement.

n *Translation of foreign currencies*

Assets and liabilities in foreign currencies are translated into Canadian dollars at year-end spot exchange rates. Revenues and expenses in foreign currencies are translated into Canadian dollars at the rates in effect at the transaction date. Premiums and discounts on foreign currency forward contracts that hedge foreign currency assets and liabilities are amortized over the period to maturity as interest expense in the consolidated statement of income. Realized and unrealized gains and losses from foreign currency translation are included in other income in the consolidated statement of income.

Notes to Consolidated Financial Statements (continued)

1 Accounting policies *(continued)*

o *Derivative instruments*

The Bank enters into interest rate, foreign exchange and equity derivative contracts in the normal course of business.

Trading derivatives are undertaken for proprietary trading, market making and to assist customers in managing their exposures. Trading derivatives are marked to market on a daily basis and the resulting gains and losses are recorded in other income. The unrealized portion of the gains and losses on trading derivatives are recorded in other assets or other liabilities as appropriate.

Asset/liability management derivatives are used to manage financial risks in the banking book such as movements in interest rates and foreign currency exchange rates. These derivatives are used for hedging activities or to modify the interest rate characteristics of specific on-balance sheet assets and liabilities, or groups of similar on-balance sheet assets and liabilities. These contracts are accounted for on an accrual basis whereby the income or expense is recognized over the term of the agreement as an adjustment to interest revenue or expense. Accrued interest receivable and payable and deferred gains and losses are recorded in other assets or other liabilities as appropriate. Realized gains or losses from the settlement or the early termination of contracts are deferred and amortized over the lesser of the remaining term of the contract or the remaining term of the underlying asset or liability being hedged.

p *Trust assets under administration*

Trust assets under administration are maintained separately from the Bank's assets and are not included in the consolidated balance sheets.

q *Securitizations*

The Bank periodically sells groups of loans to unrelated third parties. Those transactions, which transfer the risks and rewards of ownership and where there is reasonable assurance regarding the measurement of the consideration, are treated as sales and the loans are removed from the balance sheet.

Gains on such transactions are deferred and included in other income when there is no recourse to the net proceeds. Losses are recognized in other income at the date of the sale. Revenue earned by the Bank in respect of servicing the assets sold is reflected in other income as services are provided.

2 Securities

a *Carrying value*

	2000				
	Term to maturity				
	Within 1 year	*1-5 years*	*5-10 years*	*No specific maturity*	*Total carrying value*
Investment securities					
Securities issued or guaranteed by:					
Canada	$ 1,383	$ 880	$ 25	$ –	$ 2,288
Provinces	300	71	12	–	383
	1,683	951	37	–	2,671
Others	3	8	4	–	15
Mutual funds	–	–	–	25	25
Equity securities	13	20	6	5	44
Total investment securities	1,699	979	47	30	2,755
Loan substitute securities	–	85	–	–	85
Trading securities	676	57	–	222	955
Total securities	$ 2,375	$ 1,121	$ 47	$ 252	$ 3,795

Included in trading securities at December 31, 2000 are $319 million of securities issued or guaranteed by Canada or Provinces (1999 - $129 million).

2 **Securities** *(continued)*

The total carrying value of securities includes amounts denominated in U.S. dollars of $746 million (Canadian equivalent) (1999 - $343 million).

	1999				
	Term to maturity				
	Within 1 year	*1-5 years*	*5-10 years*	*No specific maturity*	*Total carrying value*
Investment securities					
Securities issued or guaranteed by:					
Canada	$ 1,090	$ 926	$ 25	$ –	$ 2,041
Provinces	86	93	–	–	179
	1,176	1,019	25	–	2,220
Others	–	83	3	–	86
Mutual funds	–	–	–	12	12
Equity securities	6	25	7	5	43
Total investment securities	1,182	1,127	35	17	2,361
Loan substitute securities	–	76	–	–	76
Trading securities	228	31	3	148	410
Total securities	$ 1,410	$ 1,234	$ 38	$ 165	$ 2,847

b *Unrealized gains and losses on investment securities*

	2000			
	Carrying value	*Gross unrealized gains*	*Gross unrealized losses*	*Estimated market value*
Securities issued or guaranteed by:				
Canada	**$ 2,288**	**$ 9**	**$ (7)**	**$ 2,290**
Provinces	**383**	**3**	**–**	**386**
	2,671	**12**	**(7)**	**2,676**
Others	**15**	**–**	**–**	**15**
Mutual funds	**25**	**–**	**(2)**	**23**
Equity securities	**44**	**–**	**–**	**44**
	$ 2,755	**$ 12**	**$ (9)**	**$ 2,758**

	1999			
	Carrying value	*Gross unrealized gains*	*Gross unrealized losses*	*Estimated market value*
Securities issued or guaranteed by:				
Canada	$ 2,041	$ 2	$ (23)	$ 2,020
Provinces	179	2	–	181
	2,220	4	(23)	2,201
Others	86	–	(1)	85
Mutual funds	12	–	–	12
Equity securities	43	2	(1)	44
	$ 2,361	$ 6	$ (25)	$ 2,342

Notes to Consolidated Financial Statements (continued)

3 Loans

a The Bank's loans outstanding net of the allowance for credit losses are as follows:

	2000	1999
Commercial loans:		
Real estate	**$ 3,406**	$ 3,391
Hotels and hospitality	**718**	833
Manufacturing	**1,618**	1,142
Trade	**2,564**	2,117
Services	**2,137**	1,326
Direct finance leases	**443**	358
Other	**444**	467
Total commercial loans	**11,330**	9,634
Residential mortgages	**6,809**	5,769
Consumer loans	**1,899**	2,014
Allowance for credit losses	**(285)**	(287)
	$ 19,753	$ 17,130

Total net loans includes amounts denominated in U.S. dollars of $1,613 million (Canadian equivalent) (1999 - $1,146 million) and other foreign currencies of $113 million (Canadian equivalent) (1999 - $109 million). Included in residential mortgages are $414 million of NHA mortgages (1999 - $573 million).

b The outstanding securitized loans sold to unrelated third parties and removed from the balance sheet are as follows as December 31:

	2000	1999
Residential mortgages	**$ 1,586**	$ 2,478
Consumer loans	**720**	350
	$ 2,306	$ 2,828

4 Impaired loans and allowance for credit losses

a The Bank's investment in impaired loans and the related specific allowances are as follows:

	2000		
	Gross amount	*Specific allowances*	*Carrying amount*
Commercial loans:			
Real estate	**$ 41**	**$ 14**	**$ 27**
Manufacturing	**24**	**8**	**16**
Trade	**36**	**11**	**25**
Services	**14**	**7**	**7**
Other	**21**	**1**	**20**
Consumer loans	**14**	**9**	**5**
Residential mortgages	**24**	**1**	**23**
	$ 174	**$ 51**	**$ 123**

4 Impaired loans and allowance for credit losses *(continued)*

	1999		
	Gross amount	*Specific allowances*	*Carrying amount*
Commercial loans:			
Real estate	$ 23	$ 9	$ 14
Manufacturing	22	11	11
Trade	33	17	16
Services	26	12	14
Other	44	10	34
Consumer loans	18	12	6
Residential mortgages	17	1	16
	$ 183	$ 72	$ 111

b The Bank's allowance for credit losses is as follows:

	2000				
	Balance at beginning of the year	*Provision for credit losses*	*Write-offs*	*Recoveries and other*	*Balance at end of the year*
Specific allowances:					
Commercial Loans:					
Real estate	**$ 9**	**$ 10**	**$ (5)**	**$ –**	**$ 14**
Manufacturing	**11**	**3**	**(6)**	**–**	**8**
Trade	**17**	**1**	**(7)**	**–**	**11**
Services	**12**	**9**	**(14)**	**–**	**7**
Other	**10**	**(2)**	**(7)**	**–**	**1**
Consumer loans	**12**	**6**	**(9)**	**–**	**9**
Residential mortgages	**1**	**1**	**(1)**	**–**	**1**
Total specific allowances	**72**	**28**	**(49)**	**–**	**51**
General allowance[(1)]	**215**	**11**	**–**	**8**	**234**
Total	**$ 287**	**$ 39**	**$ (49)**	**$ 8**	**$ 285**

	1999				
	Balance at beginning of the year	*Provision for credit losses*	*Write-offs*	*Recoveries and other*	*Balance at end of the year*
Specific allowances:					
Commercial Loans:					
Real estate	$ 10	$ 1	$ (2)	$ –	$ 9
Manufacturing	12	5	(6)	–	11
Trade	11	11	(5)	–	17
Services	7	14	(9)	–	12
Other	24	(5)	(10)	1	10
Consumer loans	11	9	(8)	–	12
Residential mortgages	1	–	–	–	1
Total specific allowances	76	35	(40)	1	72
General allowance[(1)]	207	8	–	–	215
Total	$ 283	$ 43	$ (40)	$ 1	$ 287

(1) *The Bank's general allowance has been established to absorb losses in the Bank's total loan portfolio for which specific provisions cannot yet be determined. Accordingly, the general allowance has not been applied to reduce the carrying value of specific impaired loans shown in the table in note 4(a) above.*

Notes to Consolidated Financial Statements (continued)

5 Land, buildings and equipment

	Cost	Accumulated amortization	Net book value 2000	Net book value 1999
Land and buildings	$ 24	$ 2	**$ 22**	$ 19
Furniture and equipment	97	67	**30**	37
Computer equipment	39	16	**23**	22
Leasehold improvements	82	39	**43**	46
	$ 242	$ 124	**$ 118**	$ 124

Amortization charged to income for the year ended December 31, 2000 amounted to $34 million (1999 - $32 million).

6 Other assets

	2000	1999
Accrued interest receivable	**$ 146**	$ 104
Due from clients, dealers and clearing corporations	**255**	221
Market revaluation of trading derivatives (note 19)	**127**	89
Future income taxes, net (note 14)	**95**	100
Goodwill and other intangible assets, net	**52**	12
Accounts receivable and other	**155**	46
	$ 830	$ 572

7 Deposits

	Regulated financial institutions	Individuals	Businesses and governments	Total 2000
Demand	**$ 46**	**$ –**	**$ 856**	**$ 902**
Notice	**–**	**2,263**	**2,821**	**5,084**
Fixed date	**661**	**9,853**	**7,011**	**17,525**
	$ 707	**$ 12,116**	**$ 10,688**	**$ 23,511**

	Regulated financial institutions	Individuals	Businesses and governments	Total 1999
Demand	$ 90	$ –	$ 759	$ 849
Notice	–	2,144	2,131	4,275
Fixed date	1,213	8,714	5,119	15,046
	$ 1,303	$ 10,858	$ 8,009	$ 20,170

Deposits denominated in U.S. dollars amount to $6,684 million (Canadian equivalent) (1999 - $6,409 million) and in other foreign currencies amount to $587 million (Canadian equivalent) (1999 - $635 million).

8 Other liabilities

	2000	1999
Accrued interest payable	**$ 274**	$ 223
Mortgages sold with recourse	**109**	156
Payable to clients, dealers and clearing corporations	**447**	380
Market revaluation of trading derivatives (note 19)	**136**	77
Accounts payable and other	**754**	487
	$ 1,720	$ 1,323

9 Non-controlling interest in subsidiaries

a *HSBC Canada Asset Trust*

HSBC Canada Asset Trust (the "Trust") was formed on May 26, 2000 as a closed-end trust, established under the laws of the Province of British Columbia by HSBC Trust Company (Canada), a subsidiary of the Bank, as trustee. The Trust's objective is to hold qualifying assets which will generate net income for distribution to holders of Trust Securities. The initial Trust assets are primarily undivided co-ownership interests in pools of Canada Mortgage and Housing Corporation ("CMHC") insured first mortgages originated by the Bank or its subsidiaries.

On June 28, 2000, the Trust issued 200,000 HSBC Canada Asset Trust Securities - Series 2010 ("HaTS") for gross proceeds of $200 million. Each of the HaTS were offered at $1,000 to provide an effective annual yield of 7.78% to December 31, 2010 and the six month bankers' acceptance rate plus 2.37% thereafter. Unless the Bank has failed to declare dividends on its preferred shares, the Trust will make non-cumulative semi-annual cash distributions to the holders of each of the HaTS.

The Bank has covenanted that if the Trust fails to pay the indicated yield in full on the HaTS, the Bank will not declare dividends on any of its shares unless the Trust first pays the indicated yield.

The HaTS are not redeemable by the holders. Subject to regulatory approval, the Trust may redeem the HaTS on June 20, 2005 and on any distribution date thereafter.

b *HSBC Mortgage Corporation (Canada)*

HSBC Republic Holdings (Luxembourg) S.A. holds $30 million of class B perpetual preferred shares issued by HSBC Mortgage Corporation (Canada) ("HMC"), a wholly owned subsidiary of the Bank. No dividends were paid or payable on these perpetual preferred shares for the years ended December 31, 2000 and 1999. Dividends may be declared at the discretion of the directors of HMC.

10 Subordinated debentures

Debentures, which are unsecured and subordinated in right of payment to the claims of depositors and certain other creditors, comprise:

Interest rate (%)	*Year of maturity*	*Foreign currency amount*	**2000**	1999
Issued to Group companies				
7.09[(1)]	2094	US$85	$ **127**	$ 122
Issued to others				
11.00[(2)]	2005		**60**	60
5.73[(3)]	2009		**60**	60
6.79[(4)]	2009		**50**	50
7.70[(5)]	2011		**60**	60
6.65[(6)]	2012		**25**	–
30 day bankers' acceptance rate plus 0.50%	2083		**40**	40
			295	270
Total			$ **422**	$ 392

(1) *The interest rate is fixed at 7.09% until July 2005 and thereafter the rate reprices every 5 years at the then 5 year U.S. Treasury rate plus 0.80%. Prior to July 2000, the interest rate was fixed at 6.84%.*

(2) *The interest rate is fixed at 11.00% until maturity.*

(3) *The interest rate is fixed at 5.73% until November 2004 and thereafter the rate reprices at the 90 day average bankers' acceptance rate plus 1.00%.*

(4) *The interest rate is fixed at 6.79% until December 2004 and thereafter the rate reprices at the 90 day average bankers' acceptance rate plus 1.00%*

(5) *The interest rate is fixed at 7.70% until February 2006 and thereafter the rate reprices at the 90 day average bankers' acceptance rate plus 1.00%.*

(6) *The interest rate is fixed at 6.65% until September 2007 and thereafter the rate reprices at the 90 day average bankers' acceptance rate plus 1.00%.*

Interest expense for the year ended December 31, 2000 relating to debentures issued to Group companies amounted to $9 million (1999 - $25 million).

Notes to Consolidated Financial Statements (continued)

11 Capital stock

Authorized:

Preferred - Unlimited number of Class 1 preferred shares in one or more series and unlimited number of Class 2 preferred shares in one or more series. The Board of Directors may from time to time divide any unissued Class 1 preferred shares into series and fix the number of shares in each series and the rights, privileges, restrictions and conditions.

Common - 993,677,000 common shares without par value.

Issued and fully paid:

	2000		1999	
	Number of shares	*Amount*	*Number of shares*	*Amount*
Preferred - Class 1, Series A[(1)]	**5,000,000**	**$ 125**	–	$ –
- Class 2, Series A[(2)]	–	–	10,800,000	270
Common[(3)]	**456,168,000**	**935**	280,168,000	75
		$ 1,060		$ 345

(1) *On June 28, 2000, the Bank issued 5,000,000 shares of non-voting, non-cumulative redeemable Class 1 Preferred Shares Series A for gross proceeds of $125 million. Each of the shares was offered at $25 per share to initially yield 6.25%, payable quarterly, as and when declared, until September 30, 2005. Subsequently, the dividend rate will be the greater of 6.00% or 95% of the average prime lending rate in Canada for the quarter immediately preceding the month in which the dividend is paid, as and when declared. During the year, $4 million in dividends were declared and paid.*

The shares are not redeemable prior to September 30, 2005. Subject to regulatory approval on September 30, 2005, and on the last day of every successive period for five years and one day thereafter, the shares may be redeemed in whole by the Bank by the payment of cash equal to $25 per share plus all declared and unpaid dividends to the redemption date.

On September 30, 2005, and on the last day of every successive period for five years and one day thereafter, holders of shares will have the right to convert such shares into Preferred Shares Series B on a share-for-share basis, provided the Bank has not delivered a notice of redemption in respect of Preferred Shares Series A. The provisions of the Preferred Shares Series B are the same as those for Series A, except that the yield will be set to equal the 5 year Government of Canada bond rate 21 days preceding the date of conversion.

(2) *The Class 2 Preferred Shares Series A were issued on December 22, 1999 to a Group company. The shares were redeemed on June 28, 2000 for $270 million and a dividend of $11 million was paid on that date.*

(3) *On August 23, 2000, the Bank issued 100,000,000 common shares for proceeds of $100 million. On November 17, 2000, the Bank issued 76,000,000 common shares for proceeds of $760 million.*

Dividend restrictions:

The Bank has covenanted that if the Trust fails to pay the indicated yield in full on the HaTS, the Bank will not declare dividends on any of its shares unless the Trust first pays the indicated yield.

12 Other income

	2000	1999
Investment and securities services	**$ 210**	$ 143
Deposit and payment services	**58**	52
Lending fees	**17**	18
Bankers' acceptance, letter of credit and guarantee fees	**57**	46
Trading revenue	**73**	80
Other	**47**	45
	$ 462	$ 384

13 Employee future benefits

Effective January 1, 2000, the Bank adopted the new accounting standard, CICA Section 3461, related to accounting for employee future benefits (see note 24) on a prospective basis. The estimated financial positions of the Bank's defined benefit obligations for employees is as follows:

	2000	1999
Fair value of plan assets	$ 189	$ 175
Projected pension benefit and other post-retirement obligations	171	114
Funded status	$ 18	$ 61

Information about the defined benefit plans as at December 31, 2000 is as follows:

	Pension benefit plans	*Other post-retirement obligations*
Change in projected benefit obligations:		
Benefit obligation at December 31, 1999	$ 114	$ –
Adoption of new standard	4	38
Current service cost	6	3
Employee contributions	1	–
Interest cost	9	3
Actuarial loss (gain)	3	(1)
Benefits paid	(8)	(1)
Benefit obligations at December 31, 2000	129	42
Change in assets:		
Fair value of assets at December 31, 1999	175	–
Expected return of assets	16	–
Employer contributions	5	–
Employee contributions	1	–
Benefits paid	(8)	–
Fair value of assets at December 31, 2000	189	–
Funded status – surplus (deficit)	60	(42)
Employer contributions after measurement date	2	–
Unamortized net actuarial gain	–	(1)
Unamortized transitional (asset) obligation	(10)	36
Accrued benefit (liability)	52	(7)
Valuation allowance	(47)	–
Accrued benefit (liability), net of valuation allowance	$ 5	$ (7)

The pension plans are funded. The expected return on plan assets of the pension plans are based on the expected long-term rate of return on plan assets and the fair value of plan assets. The other post-retirement plans are unfunded. For purposes of calculating the information, a measurement date of September 30 has been used.

The following is a summary of the weighted average significant actuarial assumptions used in measuring the Bank's benefit obligations as at December 31, 2000:

	Pension benefit plans	*Other post-retirement obligations*
Discount rate	7.25%	7.25%
Expected long-term rate of return on plan assets	8.0%	–
Rate of compensation increase	4.0%	4.0%

Notes to Consolidated Financial Statements (continued)

13 Employee future benefits *(continued)*

The Bank's net benefit plan expenses for the year ended December 31, 2000 is as follows:

	Pension benefit plans	*Other post-retirement obligations*
Current service cost	**$ 6**	**$ 3**
Interest cost	**9**	**3**
Expected return on plan assets	**(14)**	**–**
Amortization of transitional (asset) obligation	**(1)**	**2**
Net benefit plan expense	**$ –**	**$ 8**

14 Income taxes

Effective January 1, 2000 the Bank adopted CICA Section 3465 accounting for income taxes on a retroactive basis without restatement of any prior period (see note 24). Accordingly, for periods up to December 31, 1999, future income tax assets, future income tax liabilities, net future income tax assets and provisions for future income taxes were formerly deferred income tax assets, deferred income tax liabilities, net deferred income tax assets and provisions for deferred income taxes.

a Provisions for income taxes included in the consolidated statements of income are:

	2000	1999
Current income taxes:		
Federal	**$ 86**	$ 80
Provincial	**45**	39
	131	119
Future income taxes:		
Federal	**16**	(27)
Provincial	**8**	(13)
	24	(40)
Total income taxes	**$ 155**	$ 79

b The provisions for income taxes shown in the consolidated statements of income are less than that obtained by applying statutory tax rates to the net income before provision for income taxes, less non-controlling interest in income of subsidiaries, for the following reasons:

	2000	1999
Combined federal and provincial income tax rate	**45.2%**	44.7%
Adjustments resulting from:		
Adjustment for tax exempt income related to preferred shares, common shares, and income debentures	**(2.9)**	(6.1)
Utilization of tax losses carried forward and other deductions	**(10.3)**	(3.2)
Substantively enacted tax rate changes	**5.0**	–
Additional financial institution taxes	**1.4**	–
Other, net	**7.3**	(3.0)
	45.7%	32.4%

14 Income taxes *(continued)*

c The net future income tax asset reported in other assets is comprised as follows:

	2000	1999
Future income tax assets:		
Allowance for credit losses	**$ 85**	$ 95
Other available deductions	**28**	19
Non-capital losses	**26**	13
Other	**5**	1
	144	128
Valuation allowance	**(3)**	–
	141	128
Future income tax liabilities:		
Leases	**(23)**	(16)
Buildings and equipment	–	(4)
Intangible assets	**(17)**	–
Other	**(6)**	(8)
	(46)	(28)
Net future income tax asset	**$ 95**	$ 100

15 Long-term lease commitments

Future minimum commitments under long-term leases of premises are as follows:

2001	$ 32
2002	29
2003	27
2004	24
2005	20
2006 and thereafter	71
	$ 203

The total rental expense charged in respect of premises for the year ended December 31, 2000 was $40 million (1999 - $37 million).

16 Guarantees and letters of credit

The Bank issues guarantees and letters of credit to meet credit requirements of its customers. The amounts are not included in the consolidated balance sheets and are as follows:

	2000	1999
Guarantees	**$ 970**	$ 803
Letters of credit	**408**	389
	$ 1,378	$ 1,192

In the event of a call on the above commitments, the Bank has recourse against the customer.

17 Contingencies

A Bank subsidiary is subject to threatened actions relating to its responsibilities as a distributor, escrow agent and custodian. Based upon information presently available, counsel for the Bank are not in a position to express an opinion as to the likely outcome. Accordingly, no provisions have been recorded in the consolidated financial statements relating to these matters.

Notes to Consolidated Financial Statements (continued)

17 Contingencies *(continued)*

Legal actions have been filed against the Bank in connection with certain class action and related suits. A partial settlement has been reached in the class action suits. Management believes that the remaining claims and actions are without merit and will vigorously defend against these matters. The Bank and its subsidiaries are subject to a number of other legal proceedings arising in the normal course of their businesses. Management does not expect the outcome of any of these other proceedings, in aggregate, to have a material effect on the consolidated financial position or results of the Bank's operations.

The Bank is subject to limited recourse for potential credit losses on all assets securitized and potential shortfall of yield on certain of the assets securitized. As at December 31, 2000, the total recourse against the Bank under securitization transactions was $42 million (1999 - $38 million).

18 Fair value of financial instruments

The amounts below represent the fair values of the Bank's on balance sheet financial instruments at December 31. Fair value is the estimated amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists.

Many of the Bank's financial instruments lack an available trading market. Therefore, these instruments have been valued using present value or other valuation techniques and may not necessarily be indicative of the amounts realizable in an immediate settlement of the instruments. In addition, the calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

Changes in interest rates are the main cause of changes in the fair value of the Bank's financial instruments. The majority of the Bank's financial instruments are carried at historical cost and are not adjusted to reflect increases or decreases in fair value due to market fluctuations, including those due to interest rate changes. For those financial instruments held for trading purposes, the carrying value is adjusted daily to reflect the fair value.

	2000			1999		
	Book value	*Fair value*	*Fair value over (under) book value*	*Book value*	*Fair value*	*Fair value over (under) book value*
Assets						
Cash resources	**$ 2,372**	**$ 2,372**	**$ –**	$ 2,295	$ 2,295	$ –
Securities (Note 2)	**3,795**	**3,798**	**3**	2,847	2,828	(19)
Securities purchased under reverse repurchase agreements	**436**	**436**	**–**	378	378	–
Loans	**19,753**	**19,783**	**30**	17,130	17,100	(30)
Acceptances	**2,134**	**2,134**	**–**	1,705	1,705	–
Other assets	**830**	**830**	**–**	572	572	–
Liabilities						
Deposits	**$ 23,511**	**$ 23,556**	**$ 45**	$ 20,170	$ 20,120	$ (50)
Acceptances	**2,134**	**2,134**	**–**	1,705	1,705	–
Securities sold under repurchase agreements	**15**	**15**	**–**	179	179	–
Other liabilities	**1,720**	**1,720**	**–**	1,353	1,353	–
Subordinated debt	**422**	**436**	**14**	392	373	(19)

The book value of financial assets and financial liabilities held for purposes other than trading may exceed its fair value due primarily to changes in interest rates. In such instances, the Bank does not reduce the book value of these financial assets and financial liabilities to their fair values as it is the Bank's intention to hold them to maturity.

18 Fair value of financial instruments *(continued)*

The determination of fair values of financial instruments for which there are no quoted market values requires that a number of assumptions are made for which there exists a significant degree of subjectivity. The following methods and assumptions were used to estimate the fair value of these financial instruments:

- Cash resources, acceptances, other assets, securities purchased under reverse repurchase agreements, securities sold under repurchase agreements and other liabilities, due to their short term nature, are assumed to approximate their carrying values.
- Securities are assumed to be equal to the estimated market value of securities provided in Note 2. These values are based on quoted market prices where available. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities or other valuation techniques.
- Floating rate and consumer loans are assumed to be equal to their book value. The fair value of commercial and residential mortgage loans with fixed terms are estimated using a discounted cash flow calculation at current rates for loans with similar terms and credit risks.
- Demand and floating rate deposits are assumed to be equal to their carrying value. The fair value of fixed rate deposits are estimated using a discounted cash flow calculation at market rates.
- Subordinated debt is determined by reference to current market prices for debt with similar terms and risks.

19 Derivative instruments

In the ordinary course of business, the Bank enters into various derivative contracts such as foreign exchange contracts, interest rate swaps, forward rate agreements and financial futures contracts whose notional principal is not included in the consolidated balance sheets.

Derivatives are contracts whose value is derived from an underlying asset or an underlying reference rate or index such as interest or foreign exchange rates. The Bank uses derivatives for both trading and asset/liability management purposes.

Trading related activity includes transactions undertaken on behalf of the Bank and its customers ("Trading"). Asset/liability management derivatives are used by the Bank to manage its exposures to interest rate and foreign currency fluctuations and where appropriate the Bank may use customer related trading transactions as part of its asset/liability management ("ALM") program.

The Bank strictly adheres to its formalized risk management policies and procedures. Risk limits are determined for each portfolio of derivative instruments based on product, currency, interest rate repricing and market volatility. All limits are monitored on a daily basis.

Derivative instruments are subject to both market risk and credit risk. Market risk is the risk that the fair value of derivatives will fluctuate due to changes in interest, foreign exchange rates, and equity markets. Market risk is managed on a consolidated Bank basis.

Credit risk for derivative instruments is not equal to the notional amount of the principal as it is with assets recorded on the balance sheets. The credit risk for derivatives is principally the replacement cost of any contract with a positive market value plus an estimate for future fluctuation risk. Credit risk for derivatives is managed using the Bank's risk management policies.

Notes to Consolidated Financial Statements (continued)

19 Derivative instruments *(continued)*

a An analysis of the Bank's derivative portfolio and related credit exposure at December 31 is as follows:

	2000				1999			
	Notional amount	*Current replacement cost*	*Credit equivalent amount*	*Risk weighted balance*	*Notional amount*	*Current replacement cost*	*Credit equivalent amount*	*Risk weighted balance*
Interest rate contracts								
Forward rate agreements	$ 90	$ –	$ –	$ –	$ 1,150	$ –	$ –	$ –
Futures – exchange traded	1,077	–	–	–	2,152	1	1	–
Swaps	8,411	54	80	23	10,557	45	73	11
Caps	54	–	–	–	54	1	1	–
	9,632	54	80	23	13,913	47	75	11
Foreign exchange contracts								
Spot contracts	519	1	1	–	586	1	1	–
Forward contracts	13,736	130	324	85	9,949	58	192	64
Currency swaps and options	311	1	13	4	266	7	17	6
	14,566	132	338	89	10,801	66	210	70
Equity contracts	152	–	11	5	95	1	6	3
Total	$ 24,350	$ 186	$ 429	$ 117	$ 24,809	$ 114	$ 291	$ 84
Impact of master netting agreements		(23)	(27)	(8)		–	–	–
		$ 163	$ 402	$ 109		$ 114	$ 291	$ 84

Notional amounts are the contract amounts used to calculate the cash flows to be exchanged. They are a common measure of volume of outstanding transactions, but do not represent credit or market risk exposure.

Current replacement cost represents the estimated cost of replacing, at current market rates, all contracts with a positive value.

Credit equivalent amount is the current replacement cost plus an amount for future credit exposure associated with the potential for future changes in currency and interest rates. The future credit exposure is calculated using a formula prescribed by the Superintendent in its capital adequacy guidelines.

Risk-weighted balance represents the amount based upon which the regulatory capital required to support the Bank's derivative activities is calculated. It is derived from risk weighting the credit equivalent amounts according to the creditworthiness of the counter parties using factors prescribed by the Superintendent in its capital adequacy guidelines.

b The following tables summarize the notional amounts by remaining term to maturity of the Bank's derivative portfolio at December 31, segregating derivative instruments between those entered into by the Bank for its customer and proprietary trading activities and those used to manage the risk associated with changes in interest and foreign exchange rates as part of the Bank's ALM program.

19 Derivative instruments *(continued)*

2000

	Trading				*ALM*				
	Under 1 year	*1 - 5 years*	*Over 5 years*	*Total trading*	*Under 1 year*	*1 - 5 years*	*Over 5 years*	*Total ALM*	*Total*
Interest rate contracts									
Forward rate agreements	**$ 90**	**$ –**	**$ –**	**$ 90**	**$ –**	**$ –**	**$ –**	**$ –**	**$ 90**
Futures – exchange traded	**965**	**112**	**–**	**1,077**	**–**	**–**	**–**	**–**	**1,077**
Swaps	**1,419**	**1,763**	**69**	**3,251**	**2,586**	**2,274**	**300**	**5,160**	**8,411**
Caps	**–**	**54**	**–**	**54**	**–**	**–**	**–**	**–**	**54**
	2,474	**1,929**	**69**	**4,472**	**2,586**	**2,274**	**300**	**5,160**	**9,632**
Foreign exchange contracts									
Spot contracts	**519**	**–**	**–**	**519**	**–**	**–**	**–**	**–**	**519**
Forward contracts	**8,774**	**1,344**	**–**	**10,118**	**3,408**	**210**	**–**	**3,618**	**13,736**
Currency swaps and options	**100**	**183**	**–**	**283**	**–**	**17**	**11**	**28**	**311**
	9,393	**1,527**	**–**	**10,920**	**3,408**	**227**	**11**	**3,646**	**14,566**
Equity contracts	**152**	**–**	**–**	**152**	**–**	**–**	**–**	**–**	**152**
Total	**$ 12,019**	**$ 3,456**	**$ 69**	**$ 15,544**	**$ 5,994**	**$ 2,501**	**$ 311**	**$ 8,806**	**$ 24,350**

1999

	Trading				*ALM*				
	Under 1 year	*1 - 5 years*	*Over 5 years*	*Total trading*	*Under 1 year*	*1 - 5 years*	*Over 5 years*	*Total ALM*	*Total*
Interest rate contracts									
Forward rate agreements	$ 1,150	$ –	$ –	$ 1,150	$ –	$ –	$ –	$ –	$ 1,150
Futures – exchange traded	2,152	–	–	2,152	–	–	–	–	2,152
Swaps	3,113	2,230	57	5,400	2,284	2,738	135	5,157	10,557
Caps	–	54	–	54	–	–	–	–	54
	6,415	2,284	57	8,756	2,284	2,738	135	5,157	13,913
Foreign exchange contracts									
Spot contracts	585	–	–	585	1	–	–	1	586
Forward contracts	5,110	273	–	5,383	4,350	216	–	4,566	9,949
Currency swaps and options	57	189	–	246	–	20	–	20	266
	5,752	462	–	6,214	4,351	236	–	4,587	10,801
Equity contracts	95	–	–	95	–	–	–	–	95
Total	$ 12,262	$ 2,746	$ 57	$ 15,065	$ 6,635	$ 2,974	$ 135	$ 9,744	$ 24,809

Notes to Consolidated Financial Statements (continued)

19 Derivative instruments *(continued)*

c The following tables summarize the fair values, as represented by the sum of the net unrealized gains and losses, accrued interest receivable and payable and premiums paid or received, of the Bank's derivative portfolio at December 31 segregating derivative instruments between trading and ALM and between those that are in a favourable or receivable position from those in an unfavourable or payable position.

Trading derivatives are marked to market on a daily basis and the net position for the trading portfolio shown in the table below has already been recognized in the financial statements. ALM interest rate derivatives are accounted for on the accrual basis and the net income or expense is recognized over the life of the derivative contract. Foreign exchange derivatives used for ALM purposes are accounted for on an accrual basis as are the underlying assets and liabilities hedged. The ALM portfolio is used to manage the Bank's exposure to changes in interest and foreign currency rates. Consequently, the net favourable or unfavourable position in the ALM portfolio shown in the table below is approximately offset by changes in the values in the underlying hedged assets and liabilities.

Fair values of derivative instruments are determined using quoted market prices.

2000

	Trading			*ALM*			
	Favourable position	*(Unfavourable) position*	*Net position*	*Favourable position*	*(Unfavourable) position*	*Net position*	*Total net*
Interest rate contracts							
Forward rate agreements	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Futures	–	–	–	–	–	–	–
Swaps	19	(17)	2	35	(10)	25	27
Caps	–	–	–	–	–	–	–
	19	(17)	2	35	(10)	25	27
Foreign exchange contracts							
Spot contracts	1	(1)	–	–	–	–	–
Forward contracts	106	(114)	(8)	24	(41)	(17)	(25)
Currency swaps and options	1	(3)	(2)	–	(2)	(2)	(4)
	108	(118)	(10)	24	(43)	(19)	(29)
Equity contracts	–	(1)	(1)	–	–	–	(1)
Total	$ 127	$ (136)	$ (9)	$ 59	$ (53)	$ 6	$ (3)

1999

	Trading			*ALM*			
	Favourable position	*(Unfavourable) position*	*Net position*	*Favourable position*	*(Unfavourable) position*	*Net position*	*Total net*
Interest rate contracts							
Forward rate agreements	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Futures	1	(1)	–	–	–	–	–
Swaps	21	(19)	2	24	(47)	(23)	(21)
Caps	1	–	1	–	–	–	1
	23	(20)	3	24	(47)	(23)	(20)
Foreign exchange contracts							
Spot contracts	1	(1)	–	–	–	–	–
Forward contracts	57	(55)	2	1	(99)	(98)	(96)
Currency swaps and options	7	–	7	–	–	–	7
	65	(56)	9	1	(99)	(98)	(89)
Equity contracts	1	(1)	–	–	–	–	–
Total	$ 89	$ (77)	$ 12	$ 25	$ (146)	$ (121)	$ (109)

20 Interest rate sensitivity position

The following table provides an analysis of the Bank's interest rate sensitivity position at December 31 based on contractual repricing dates of assets and liabilities:

	2000									
	Within 3 months	*3 to 6 months*	*6 to 12 months*	*Effective interest rate (%)*	*1 to 5 years*	*Effective interest rate (%)*	*Greater than 5 years*	*Effective interest rate (%)*	*Non-interest sensitive*	*Total*
Cash resources	$ 2,098	$ –	$ –	6.4	$ 6	6.7	$ –	–	$ 268	$ 2,372
Securities	1,778	330	365	6.4	981	6.2	39	5.9	302	3,795
Securities purchased under reverse repurchase agreements	436	–	–	–	–	–	–	–	–	436
Loans	11,295	1,309	1,792	7.6	5,298	7.0	170	7.8	(111)	19,753
Other assets	–	–	–	–	–	–	–	–	3,082	3,082
Total assets	15,607	1,639	2,157	–	6,285	–	209	–	3,541	29,438
Deposits	13,928	2,669	3,148	5.1	1,094	6.1	13	7.3	2,659	23,511
Securities sold under repurchase agreements	15	–	–	–	–	–	–	–	–	15
Other liabilities	–	–	–	–	–	–	–	–	3,854	3,854
Non-controlling interest in subsidiaries	–	–	–	–	–	–	200	7.8	30	230
Subordinated debt	40	–	–	–	297	7.6	85	7.4	–	422
Shareholders' equity	–	–	–	–	125	6.3	–	–	1,281	1,406
Total liabilities & shareholders' equity	13,983	2,669	3,148	–	1,516	–	298	–	7,824	29,438
On balance sheet gap	1,624	(1,030)	(991)	–	4,769	–	(89)	–	(4,283)	–
Off balance sheet positions	(709)	(470)	(103)	–	1,058	–	224	–	–	–
Total interest rate gap	$ 915	$(1,500)	$(1,094)	–	$ 5,827	–	$ 135	–	$(4,283)	$ –

Notes to Consolidated Financial Statements (continued)

20 Interest rate sensitivity position *(continued)*

	1999										
	Within 3 months	*3 to 6 months*	*6 to 12 months*	*Effective interest rate (%)*	*1 to 5 years*	*Effective interest rate (%)*	*Greater than 5 years*	*Effective interest rate (%)*	*Non-interest sensitive*	*Total*
Cash resources	$ 1,849	$ 180	$ –	5.5	$ –	–	$ –	–	$ 266	$ 2,295
Securities	1,126	164	236	5.4	1,128	6.7	28	7.0	165	2,847
Securities purchased under reverse repurchase agreements	378	–	–	–	–	–	–	–	–	378
Loans	9,827	1,212	1,520	6.7	4,443	6.8	232	7.4	(104)	17,130
Other assets	–	–	–	–	–	–	–	–	2,401	2,401
Total assets	13,180	1,556	1,756	–	5,571	–	260	–	2,728	25,051
Deposits	11,938	1,755	3,396	4.4	617	6.0	13	7.4	2,451	20,170
Securities sold under repurchase agreements	179	–	–	–	–	–	–	–	–	179
Other liabilities	–	–	–	–	–	–	–	–	3,028	3,028
Non-controlling interest in subsidiaries	–	–	–	–	–	–	–	–	30	30
Subordinated debt	40	–	122	6.8	110	6.2	120	9.4	–	392
Shareholders' equity	–	–	–	–	270	8.5	–	–	982	1,252
Total liabilities & shareholders' equity	12,157	1,755	3,518	–	997	–	133	–	6,491	25,051
On balance sheet gap	1,023	(199)	(1,762)	–	4,574	–	127	–	(3,763)	–
Off balance sheet positions	(150)	(344)	2	–	421	–	71	–	–	–
Total interest rate gap	$ 873	$ (543)	$(1,760)	–	$ 4,995	–	$ 198	–	$(3,763)	$ –

An immediate and sustained parallel increase in interest rates of 1% across all currencies and maturities would reduce net interest income by $15 million (1999 - $15 million) over the next twelve months assuming no additional hedging is undertaken.

In managing interest rate risk, the Bank relies primarily upon its contractual interest rate sensitivity position adjusted for certain assumptions regarding customer behavioural preferences which are based upon historical trends. Adjustments made include assumptions relating to early repayment of consumer loans and residential mortgages and customer preferences for demand, notice and redeemable deposits. Based upon these adjustments, it is estimated that an immediate and sustained parallel increase in interest rates of 1% across all currencies and maturities would decrease net interest income by $6 million (1999 - $10 million) over the next twelve months assuming no additional hedging.

21 Segmented information

a *Business Lines:*

The Bank's reportable segments are strategic business lines that offer different products and services. The Bank primarily measures the performance of each business line based on the net income of the business line. A description of each segment is as follows:

Personal financial services provides a range of personal financial services to individuals through the Bank's branches and subsidiary offices, ABMs and other electronic delivery channels such as Internet, PC and telephone. Services included in this segment include: retail and private banking; PC and telephone banking; card services; full service and discount brokerage, including Internet trading; asset management, including retirement products; direct sale home and automotive insurance; and trust and advisory services.

Commercial financial services provides credit, loan syndication, trade finance, foreign exchange and commercial and investment banking activities to the Bank's mid-market commercial clients. The commercial banking business line also includes institutional fund management services.

Corporate and institutional banking provides full service commercial and investment banking products and services to the Group's largest multinational corporate clients.

Treasury and markets encompasses results of activities from the Bank's treasury department and trading activities from the Bank's full service brokerage subsidiary. Treasury and Markets also includes trading in foreign exchange, fixed income securities, equity and derivative products.

Other includes the effect of consolidation adjustments and unallocated revenues and expenses.

The accounting policies of the segments are generally consistent with those followed in the preparation of the consolidated financial statements as disclosed in Note 1.

	Year ended December 31, 2000					
	Personal financial services	*Commercial financial services*	*Corporate and institutional banking*	*Treasury and markets*	*Other*	*Total*
Net interest income	**$ 300**	**$ 312**	**$ 24**	**$ 30**	**$ –**	**$ 666**
Provision for credit losses	**(11)**	**(25)**	**(3)**	**–**	**–**	**(39)**
Other income	**211**	**152**	**17**	**82**	**–**	**462**
Non-interest expenses	**(372)**	**(263)**	**(7)**	**(59)**	**(41)**	**(742)**
Net income before the under noted:	**128**	**176**	**31**	**53**	**(41)**	**347**
Provision for income taxes	**(56)**	**(76)**	**(13)**	**(23)**	**13**	**(155)**
Non-controlling interest in income of subsidiaries	**(2)**	**(4)**	**(1)**	**(1)**	**–**	**(8)**
Net income	**$ 70**	**$ 96**	**$ 17**	**$ 29**	**$ (28)**	**$ 184**
Average assets	**$ 9,287**	**$ 11,061**	**$ 2,193**	**$ 5,942**	**$ –**	**$ 28,483**

Notes to Consolidated Financial Statements (continued)

21 Segmented information *(continued)*

Year ended December 31, 1999

	Personal financial services	*Commercial financial services*	*Corporate and institutional banking*	*Treasury and markets*	*Other*	*Total*
Net interest income	$ 249	$ 236	$ 25	$ 30	$ –	$ 540
Provision for credit losses	(9)	(32)	(2)	–	–	(43)
Other income	165	127	12	80	–	384
Non-interest expenses	(306)	(232)	(9)	(51)	(39)	(637)
Net income before the undernoted:	99	99	26	59	(39)	244
Provision for income taxes	(32)	(32)	(8)	(19)	12	(79)
Non-controlling interest in income of subsidiaries	–	–	–	–	–	–
Net income	$ 67	$ 67	$ 18	$ 40	$ (27)	$ 165
Average assets	$ 8,913	$ 9,319	$ 1,980	$ 5,794	$ –	$ 26,006

b *Geographic:*

	2000			
	Assets		*Liabilities*	
	Amount	*Percent*	*Amount*	*Percent*
Canada	**$ 27,484**	**93.3**	**$ 23,178**	**83.4**
United States	**1,767**	**6.0**	**1,018**	**3.7**
Hong Kong SAR	**53**	**0.2**	**2,063**	**7.4**
Other	**134**	**0.5**	**1,543**	**5.5**
	$ 29,438	**100.0**	**$ 27,802**	**100.0**

	1999			
	Assets		*Liabilities*	
	Amount	*Percent*	*Amount*	*Percent*
Canada	$ 23,392	93.4	$ 19,243	81.0
United States	1,157	4.6	1,058	4.5
Hong Kong SAR	54	0.2	2,078	8.7
Other	448	1.8	1,390	5.8
	$ 25,051	100.0	$ 23,769	100.0

Assets are allocated on the basis of the location of ultimate risk. Liabilities are allocated on the basis of the residence status of the bearer of the deposit, acceptances or other liability.

22 Business acquisitions and long-term investments

a *2000 acquisitions*

Effective April 1, 2000, the Bank acquired all of the voting shares of Republic National Bank of New York (Canada) ("Republic Canada"). Republic Canada was acquired from a Group company at carrying amounts. The carrying amounts were supported using an independent third party. Immediately subsequent to the acquisition, Republic Canada was amalgamated with the Bank.

The acquisition was accounted for as an exchange of ownership interests under common control using the carrying amounts of the net assets acquired which consisted of:

Tangible assets	**$**	**1,256**
Intangible assets		**51**
Liabilities		**(1,183)**
Net assets acquired for cash consideration	**$**	**124**

b *1999 acquisitions*

Effective January 1, 1999, HSBC James Capel Canada Inc. (subsequently renamed HSBC Securities (Canada) Inc.) ("HSBC Securities") and Gordon Capital Corporation, an institutional brokerage company were amalgamated and continued operations as HSBC Securities. As part of the same transaction, HSBC Securities acquired all of the issued and outstanding shares of Gordon Private Client Corporation and GPCC Holdings Inc.

Effective December 6, 1999 the Bank acquired all of the common shares of Prenor Trust Company of Canada (subsequently renamed HSBC Loan Corporation), a mortgage lending business in liquidation.

These acquisitions were accounted for using the purchase method. Consideration for the net assets acquired was paid in cash. The fair value of net assets acquired was as follows:

Assets	$	689
Liabilities		·601
Net assets acquired	$	88

23 Related party transactions

On November 29, 2000 the Bank sold to a Group company, its 100% interest in HSBC InvestDirect (Canada) Inc. ("HIDC") for cash consideration of $110 million. The transfer price was determined using an independent third party valuation. The resulting gain of $88 million, net of tax and costs was credited directly to retained earnings. The valuation operating results of HIDC for the period January 1, 2000 to November 28, 2000 are included in the consolidated operating results of the Bank for the year ended December 31, 2000.

Following this transaction, HIDC was transferred by the Parent to Merrill Lynch HSBC Limited, a company in which the Group has a 50% interest. Subsequently HIDC was re-named Merrill Lynch HSBC Canada Inc. The Bank continues to provide a variety of accounting, payroll and other services to Merrill Lynch HSBC Canada on an arm's length basis at market terms and conditions.

The Bank pays fees to Group companies with respect to guarantees of deposit liabilities, administrative and technical services provided to the Bank. The total fees for the year ended December 31, 2000 amounted to $53 million (1999 - $55 million).

Group companies hold certain debentures and preferred shares of the Bank (notes 9 and 10).

The Bank has an agreement with a Group company to provide a standby borrowing facility of up to US$200 million to the Bank at market rates and conditions. Funds have not been drawn from the facility since entering into the agreement.

In addition to the above related party transactions, the Bank has transactions of a routine nature with Group companies, none of which is material to these financial statements.

Notes to Consolidated Financial Statements (continued)

23 Related party transactions *(continued)*

The Bank's wholly owned principal operating subsidiaries are as follows:

Principal subsidiaries	*Principal office address*	*Book value of voting shares*
HSBC Mortgage Corporation (Canada)	Vancouver, British Columbia	$ 177
HSBC Trust Company (Canada)	Edmonton, Alberta	–
HSBC Canadian Direct Insurance Incorporated	New Westminister, British Columbia	35
HSBC Securities (Canada) Inc.	Toronto, Ontario	236
HSBC Capital (Canada) Inc.	Vancouver, British Columbia	8
HSBC Investment Funds (Canada) Inc.	Vancouver, British Columbia	1
HSBC Asset Management (Canada) Limited	Vancouver, British Columbia	5
HSBC Loan Corporation (Canada)	Vancouver, British Columbia	1

24 Accounting changes

Effective January 1, 2000, the Canadian Institute of Chartered Accountants ("CICA") changed the accounting standards relating to the accounting for income taxes and the accounting for future employee benefits, including pension and non-pension post-retirement benefits.

a *Income taxes*

The accounting recommendations in Section 3465 were adopted on a retroactive basis, without restatement of any prior periods. The cumulative effect of this accounting policy change has been recorded at January 1, 2000 as a decrease in retained earnings of $4 million, an increase in net future income tax assets of $42 million (primarily related to the benefit of income tax losses carried forward recognized as it is more likely than not the assets will be realized) and an increase in deferred credits of $46 million.

b *Employee future benefits*

CICA Handbook Section 3461 requires costs of post-retirement benefit plans, other than pensions, to be accrued over the periods in which the employees render services in return for the benefits. Prior to January 1, 2000, costs relating to post-retirement benefit plans, other than pensions, were accounted for on a cash basis. The calculation of the accrued pension benefit obligation relating to pensions and post-retirement benefits requires the use of a current settlement discount rate. Prior to adoption of this new standard, pension expense was determined using a long-term rate of return to measure accrued pension benefits.

The effect of the new standard on future benefits other than pensions required recognition of a liability as at January 1, 2000 amounting to $38 million. As the Bank has chosen to adopt this standard on a prospective basis, this liability will be recognized over the estimated average remaining service life of the employees, which is 20 years. The expense for employee future benefits for the year ended December 31, 2000 is not materially different than it would have been under the previous standard.

In estimating the financial position of the defined benefit pension plans as at December 31, 2000, a valuation allowance of $40 million was applied against the surplus of certain pension plans, in accordance with Section 3461.

25 Subsequent events

The Bank has reached agreement to purchase, by way of amalgamation, Crédit Lyonnais Canada and CCF Canada. The approximate total assets of Crédit Lyonnais Canada and CCF Canada at December 31, 2000 were $110 million and $15 million respectively. CCF Canada's ultimate parent, Crédit Commercial de France, had previously been purchased by HSBC Holdings plc in July 2000. These transactions, which are subject to regulatory approval, are expected to close during the first quarter of 2001.

HSBC International Network

Services are provided by more than 6,500 offices in 79 countries and territories:

Europe	Offices
Armenia	2
Azerbaijan	1
Belgium	3
Channel Islands	28
Cyprus	156
Czech Republic	1
France	695
Germany	13
Greece	48
Ireland	6
Isle of Man	4
Italy	13
Luxembourg	7
Malta	65
Monaco	3
Netherlands	2
Poland	2
Russia	2
Spain	8
Sweden	2
Switzerland	18
Turkey	9
United Kingdom	1,775

Asia-Pacific	Offices
Australia	34
Bangladesh	4
Brunei Darussalam	14
China	21
Hong Kong Special Administrative Region	438
India	34
Indonesia	11
Japan	5
Kazakhstan	1
Korea, Republic of	10
Macau Special Administrative Region	6
Malaysia	43
New Zealand	8
Pakistan	2
Philippines	23
Singapore	30
Sri Lanka	9
Taiwan	12
Thailand	5
Vietnam	2

Americas	Offices
Argentina	214
Bahamas	8
Bermuda	1
Brazil	1,460
Canada	166
Cayman Islands	4
Chile	4
Guam	1
Mexico	3
Panama	17
Saipan	1
United States of America	932
Uruguay	2
Venezuela	1

Middle East and Africa	Offices
Angola	2
Bahrain	5
Côte d'Ivoire	1
Egypt	15
Ghana	1
Iran	1
Israel	3
Jordan	3
Kenya	2
Lebanon	7
Mauritius	16
Morocco	2
Mozambique	2
Namibia	1
Oman	7
Palestinian Autonomous Area	1
Qatar	3
Saudi Arabia	80
South Africa	12
Uganda	1
United Arab Emirates	15
Zambia	1

Associated companies are included in the network of offices.

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Delta
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Nanaimo (2)
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Prince George
Richmond (4)
Surrey
Vancouver (17)
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Victoria (3)
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